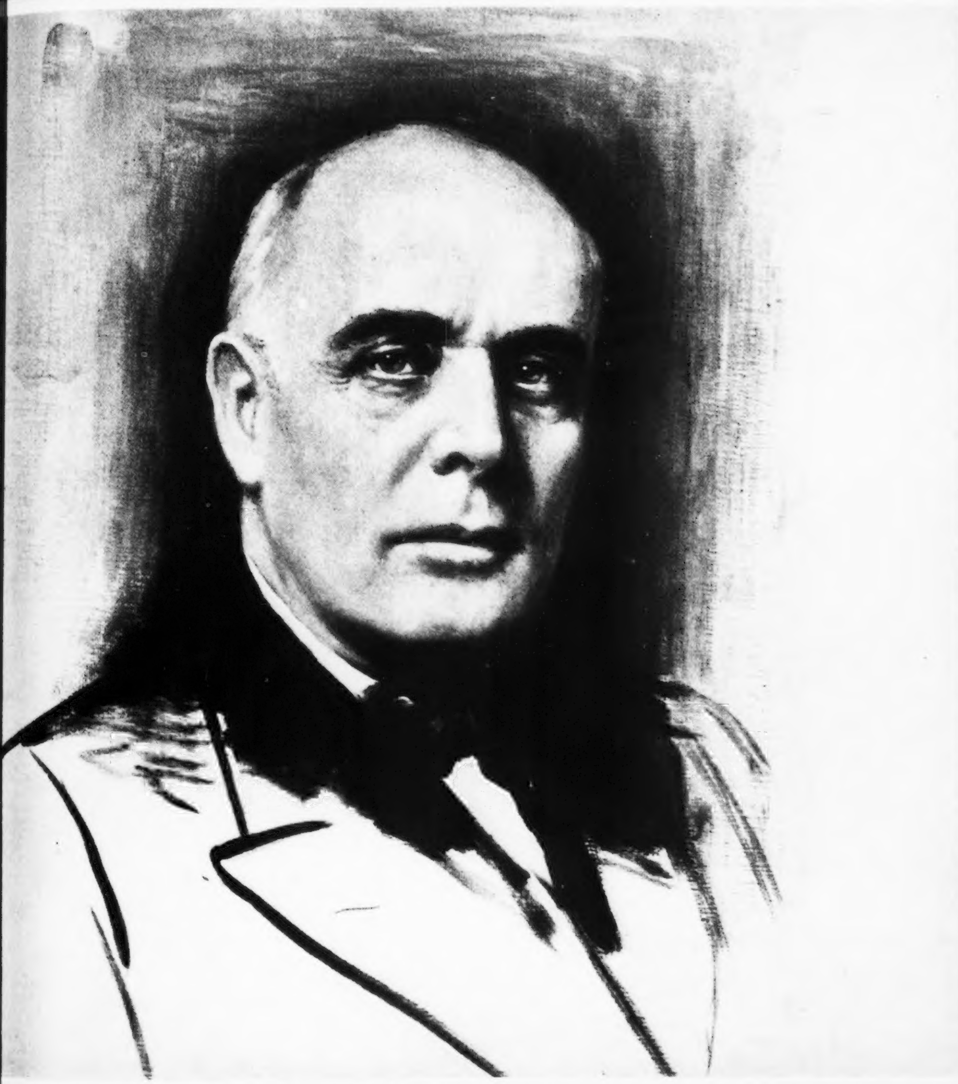
# AMERICAN BANKERS Association JOURNAL



FRANCIS H. SISSON

PORTRAIT BY ALBERT A. [illegible]

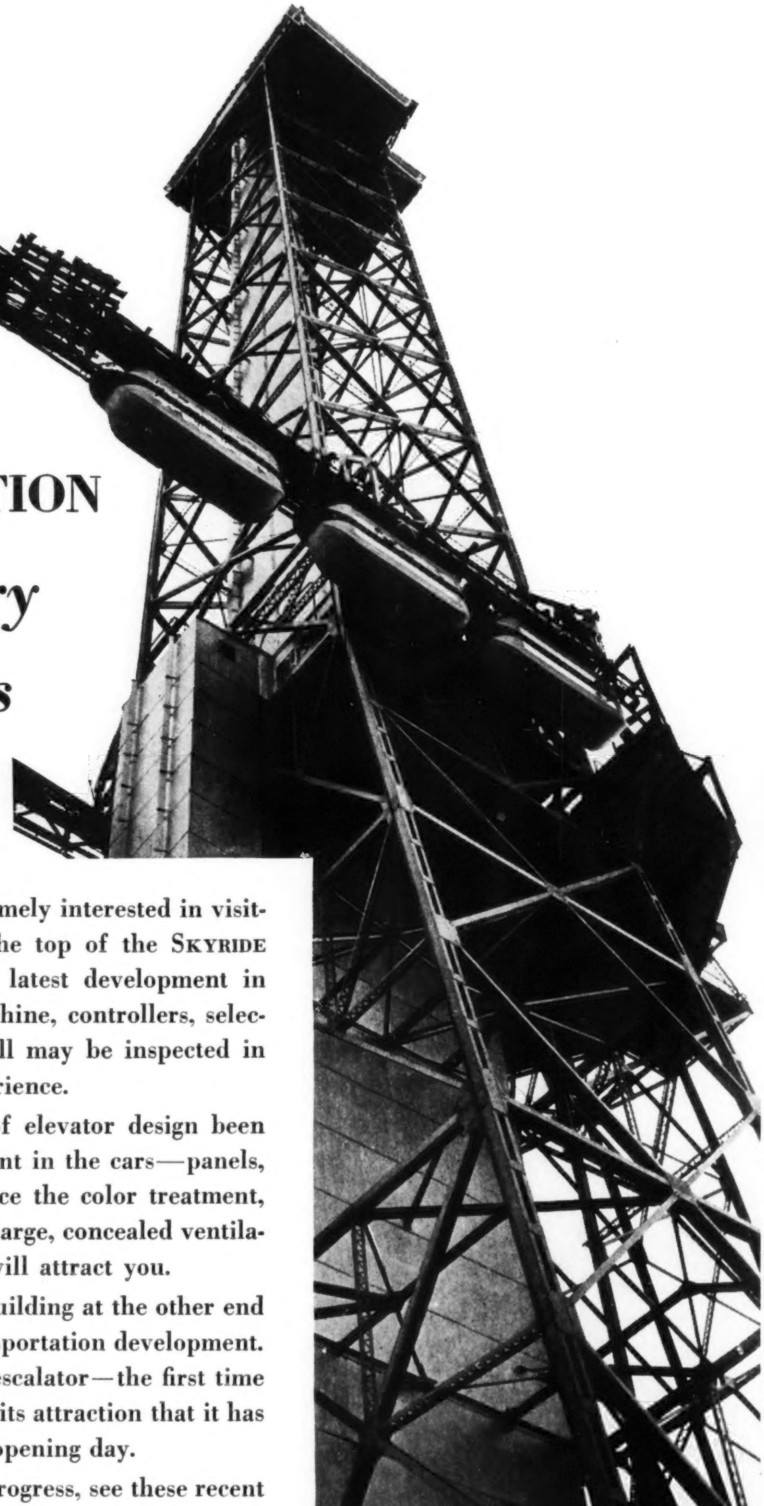
AUGUST 1933

## The Reserve Board's Difficult Assignment

By Edmund Platt

PUBLISHED IN TWO SECTIONS · SECTION ONE

# OTIS TRANSPORTATION *at A Century of Progress*



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# The Condition of BUSINESS

WITH the arrival of the middle of July the amazing 1933 rise in speculative and business activity, which began with the reopening of the banks on March 15, definitely completed its fourth full month. Moreover, despite the fact that it had already carried some six to eight weeks beyond normal seasonal expectations there was little evidence visible that the forces behind it had spent themselves.

The period covered by this review—June 15-July 15—coincides almost exactly with the period covered by the deliberation of the World Economic Conference, and as one might expect, this period's manifestations were in a considerable degree a reflection of the developments at London. It is a curious commentary on the change of mental attitude in this country in recent weeks, however, that the continuance of the business boom well into July—and its continuance at an accelerated pace—was attributable in a large measure, not to the success of the Conference, but to the very circumstance which brought about the latter's failure. This was the decision of President Roosevelt to turn away at the last minute from attempts to bring order out of chaos internationally and to seek to carry out his campaign of price raising at home regardless, for the time being at least, of world currency stabilization.

It became evident during the first week of the Conference that the speculative markets, which had started the violent phase of their rise on April 20, following the announcement of the gold embargo, were waiting to see what was going to be done about stabilizing the dollar before they proceeded. In fact, so nervous was the situation for a few days that in the week beginning June 10, when stabilization talk filled the air, the stock market suffered its most violent reaction in many months. Whether in recognition of this situation or not, Secretary Woodin took occasion, on June 15, to deny officially London reports of imminent stabilization; two days later this thesis was amplified from the White House, and a fortnight later, on July 3, President Roosevelt dispatched his now famous "ultimatum" to the Conference in which he declared that it would be a "catastrophe" if the Conference should be "diverted by the proposal of a purely artificial and temporary experiment affecting the money exchanges of a few nations only." In view of these developments, and in view of the accompanying renewal by the Administration of its previously announced determination to put commodity prices back to their 1924-1925 levels, it is small wonder that the speculative markets took a new lease on life. It is smaller wonder, likewise, that a cynical commentator should remark that we were witnessing "the first guaranteed bull market" since the war days.

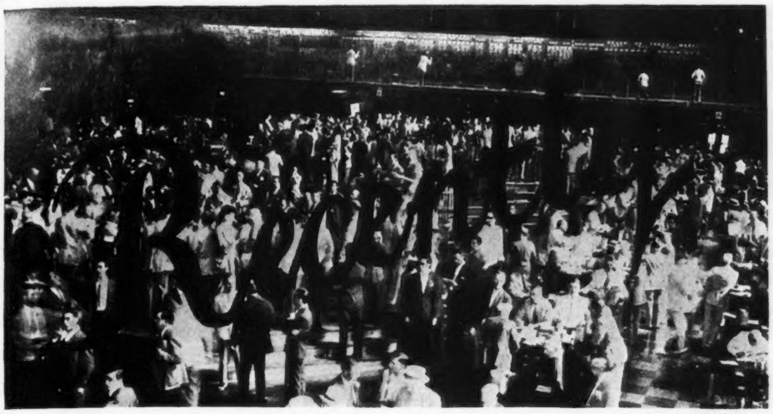
How much the rise in business activity during this period has been predicated on the speculation in stocks and commodities it is difficult to say, but its performance has been equally spectacular. Production in the month of June, according to the Department of Commerce, was at a rate more than sufficient to offset seasonal adverse influences, reaching the highest level since the middle of 1931. This general observation is abundantly sustained by the standard indices of industrial production and distribution. Steel production, which had risen from 14 per cent of capacity to 20 per cent between mid-March and mid-April, which had touched 31 per cent in the middle of May and continued its rise to 47 per cent by the middle of June, stood at 59 per cent in (CONTINUED ON PAGE 50)

## Bonds

THE strong rally in bond prices has continued, and the last month has been one of the most profitable for bond portfolios of banks ever experienced. It is said that the Federal Reserve Board's monumental study of branch banking shows that bond portfolio difficulties played an unimportant part in bank suspensions in the decade ended in 1929, but, after that, had an increasingly important rôle to play in the tragedy of bank failures. The sweeping recovery in bond prices since mid-April, which was considerably extended in the month under review, naturally gives rise to hope that the bond portfolio troubles of the banks will be, for the prudent bank, things of the past.

Just as significant as the steep upturn in prices of outstanding bonds has been the readiness with which several new issues were marketed. New York State was able to sell a bond issue on an interest basis of 2.936 per cent, a record low. Equally important was the remarkable success attained in the offering of $60,000,000 Dominion of Canada 15 month 4 per cent notes. Bankers were still unwilling to risk flotations of corporate issues, but one of the conditions essential to a good bond market has been bettered in recent weeks, namely, better earnings and the promise of net receipts more than sufficient to cover service on fixed debt. That condition, together with easy money, the recently exhibited will to invest on the part of the public and the fact that the Treasury has refrained from direct sale of its securities to the Federal Reserve, holds out hope for a "normal" bond market.

In the foreign field two noteworthy events took place. Germany relented somewhat from her earlier attitude and agreed to pay 50 per cent of the service on external debt in foreign exchange and 50 per cent in mark checks. Foreign bondholders are being made to suffer loss of service so that the Reichsbank's gold reserves may be built up, but they are to suffer less than it was at first indicated they would. Second, the United States followed up its $50,000,000 loan to China with one of $4,000,000 to Russia.



INTERNATIONAL

**The Chicago Board of Trade. Prices have registered a broad upswing**

THE most important news of the month under review is to be found, first, at the World Monetary and Economic Conference in London and, second, in the momentous changes being wrought in this country's economic life by the practical application of the principles expressed in the National Industrial Recovery Act. In a real sense, however, what has been happening at London and Washington is but the manifestation in widely separated places of the new theory of business and government which the Roosevelt Administration has adduced.

The story of the world economic conference is largely the story of the retreat of the American delegation from a position of international cooperation to one of economic nationalism in its most virulent form. The transition was not achieved without the frequent embarrassment of the American representatives. On June 14, at the outset of the conference, Secretary Hull, as the head of the American group, made a strong plea for the end of economic nationalism and emphasized the need for tariff revision. On the same day Chancellor Chamberlain, for Great Britain, stressed the desirability of debt settlements and currency stabilization.

When, later, the parley was thrown into confusion by the Administration's unexpected attitude on the currency question, Mr. Roosevelt sent his chief advisor, Raymond Moley, to London. Mr. Moley was to be embarrassed on the currency stabilization question no less than his fellow Americans were shortly after the conference opened.

President Roosevelt turned his back on even the vaguely stated Conference policy looking to future stabilization, and an end of exchange speculation, to which, it was understood, Mr. Moley had agreed. He notified the conference on July 1 that the proposal submitted to him was rejected "in its present form". This view he reiterated in still stronger terms on July 3 by declaring that it would be a "catastrophe" if the conference were to be "diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchanges of a few nations only." On July 5 Mr. Roosevelt made his currency ideas slightly more plain to the conference by coming out for a "managed currency". He said he hoped to keep prices on 1924-25 levels. The final blow which America had to give on the subject of currency stabilization came on July 12. Just as it was getting ready to discuss the limited objectives which it had laid out, the Federal Reserve sent word that it refused to assent to discussion of rules for future guidance of central banks.

America's handling of the currency proposals threatened constantly to cause the delegates of other nations to seek an adjournment of the Conference. On July 6 Secretary Hull prevented an immediate dissolution by an earnest plea for continuation, if only with the scope greatly narrowed. The gold bloc was successful in having money questions barred from further discussion.

On July 13 Professor Raymond Moley, Dr. Oliver M. W. Sprague and Herbert Bayard Swope arrived at New York from London, and Dr. Sprague was frank to say that he thought the conference should adjourn for three months so that the price raising policy of the United States could be further tested.

The United States sabotaged the currency stabilization projects before the conference, but it had two definite proposals to make in other fields. Through Senator Pittman it introduced a monetary proposal which provided, among other things, that the nations would turn to a gold plus silver basis, that

minimum legal reserve percentages for central banks be reduced to 25 per cent, of which one-fifth would be silver; that the debasement of silver token coins be stopped and a limitation set on arbitrary sales of silver in the world market. The silver provisions of the Pittman plan were side-tracked by a sub-committee. Also as a result of American effort, the Conference's wheat committee stated on July 5 that the leading wheat countries had agreed in principle on a "policy of temporary adjustment of production to consumption."

The Conference decided on July 14 to adjourn on July 27.

### NIRA

DONALD RICHBERG, general counsel for the Industrial Recovery Administration, on July 6, warned industry that it must now govern itself or submit to political control, and on July 7 General Johnson told industry that the Administration must insist, if the increase in production was to continue, that it use the facilities of the national recovery act to build up mass purchasing power.

The first major agreement to be formulated under the recovery act was that of the cotton textile industry, which Mr. Roosevelt approved on July 9. The code provided for a maximum work week of 40 hours, minimum wages of $12 a week in the South and $13 in the North, and elimination of child labor. By mid-July the codes were coming in thick and fast to General Johnson's department. On July 12 the electrical and shipbuilding industries submitted their codes, followed by those of the oil, coal, women's cloak and suit, general contracting, cement, men's apparel and others on July 13. Nevertheless, the Administration kept working on plans for a blanket code for all industry so that the emergency unemployment section of the recovery act would get under way as soon as possible.

Public works, another arm of attack, received on June 23 an allotment of $400,000,000 in road funds to states and territories. The War Department also submitted a $135,000,000 program for reconditioning army posts and national cemeteries.

Meanwhile, on the agricultural front, pressed the administration's plans for crop reduction and farm relief. Incident to the placing in effect of the processing tax on wheat, bread prices were raised from 1 to 2 cents in many centers in the first half of July. Secretary Wallace issued a stern warning to the bakers. On June 19 he moved for the destruction of one-fourth of the United States

cotton crop, about 10,000,000 acres, and on June 28, a 20 per cent reduction in corn land. He still favored the processing tax—4.2 cents on cotton and 30 cents on wheat—in spite of the startling declines in the Government's reports on crops as of July 1. The wheat crop promised to be the smallest in 40 years, with the indicated output less than domestic requirements for the first time in 40 years.

Owing chiefly to imports of raw materials, imports in May increased by nearly $19,000,000 to $108,000,000, one of the largest advances since 1929. Exports were higher by nearly $9,000,000, aided by heavy shipments of cotton.

Cotton on June 26 rose more than $4 a bale, with all positions above 10 cents, and wheat was more than 7 cents a bushel higher in the Chicago grain pit. The gains in these commodities were the sharpest in years. Crude oil was marked up from 2 to 15 cents a barrel and gasoline 1 cent a gallon in several sections of the country.

Bank clearings in the week ended June 28 were smaller than in the previous week, but they showed the largest percentage gain over the previous year's figures since the depression began.

May production of automobiles, it was revealed on June 30, was 218,171 cars, an increase of 37,504 over April and the largest total for any corresponding period since July, 1931.

Security trading set a record in June, with sales amounting to 125,627,124 shares, compared with 104,229,094 in May and with an all-time record of 141,668,410 shares in October, 1929. No June ever had a larger share turnover.

The United States Government wound up its fiscal year on July 1 with a deficit of $1,786,000,000, against $2,880,000,000 for the previous fiscal year.

### EUROPE

FEARING a German coup, Chancellor Engelbert Dolfuss of Austria at London asked the aid of the Powers on June 13 in his country's fight against Nazi terrorism. On June 14, in retaliation for the arrest in Vienna of Theodor Habicht, State Inspector of the Nazis in Austria, Germany ordered Dr. Erwin Wasserbaeck, press attaché of the Austrian delegation, out of Germany.

The Soviet-British trade war was ended on July 1 with the release of the two British prisoners, William MacDonald and Leslie C. Thornton. Both sides saved their faces, the British getting access again to the Russian market and Russia pointing out that the trade embargo was lifted first.

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# The Reserve Board's Difficult Assignment

## The Banking Act of 1933 Gives the Board Important Powers

By EDMUND PLATT

SENATOR GLASS, in his splendid address of April 27 with relation to the gold embargo and to the first section of the inflation bill then pending, declared that this section "creates the Federal Reserve Bank System into a servile agency of the Treasury Department." Elsewhere he is quoted as saying that the Federal Reserve Board was to become a mere "doormat" for the Treasury.

That the Reserve Board has by the recent legislation been placed pretty definitely under control of the Treasury or of the Administration cannot be doubted, so far at least as matters of broad credit policy which are assumed to affect prices of commodities are concerned. But the Banking Act of 1933, nevertheless, contains more than 20 paragraphs which increase the power of the Board. Most of these increases of authority have to do with administrative detail and include prescribing regulations or enforcing penalties in a wide variety of cases, but there are several which are far-reaching and have to do more or less with matters of credit policy.

**Mr. Platt is vice-president of the Marine Midland Group and was formerly Vice-Governor of the Federal Reserve Board**

At least one is in the direction of giving the Board a more independent status. The fourth paragraph of Sec. 10 of the Federal Reserve Act is amended so as to provide that the funds derived from assessments upon the Federal Reserve banks to pay the Board's expenses and salaries "shall not be construed to be Government funds or appropriated monies." These funds had previously been subject to the audit of the Comptroller of the Treasury, who had made some rulings from time to time which were not only annoying but which in the opinion of the Board tended to prevent its most efficient operation.

Several pivotal sections of the Act are designed to prevent the use of Federal Reserve funds in speculation and to limit loans based upon stock and bond collateral. One of these brings the Board into direct contact with member banks without any necessary intervention or recommendations from the Federal Reserve banks. This (Sec. 7) amends Par. (m) of Sec. 11 of the Federal Reserve Act so as to provide that "upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have power to fix from time to time for each Federal Reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district." It is further provided that any percentage so fixed "shall be subject to change from time to time upon ten days notice," and that the "Federal Reserve Board shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges."

Sec. 3 of the Glass Act amends Sec. 4 of the Federal Reserve Act which has reference to the organization of the Federal Reserve banks and the powers and duties of their directors. The amendment requires each Federal Reserve bank to keep itself informed "of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate or commodities or for any other purpose inconsistent with the maintenance of sound credit conditions." It would seem that these two sections of the Banking Act of 1933 should be read together, and, although Sec. 7 gives the Board power to exercise control over collateral loans without referring to the Federal Reserve banks, it would be difficult, if not impossible, to enforce the section without recommendations from them.

It is noteworthy that Sec. 3 of the new Banking Act distinctly gives the Federal Reserve banks authority to refuse to make loans to the member banks. The amended paragraph formerly required that the board of directors of each Federal Reserve bank "shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks, and *shall*, subject to the provisions of law and the [This phrase which seems to make the extension of Federal Reserve credit subject to the "orders of the Federal Reserve Board" was in the Reserve Act when

first passed. It has always been regarded as a dead letter, as no authority to issue orders with regard to loans to member banks is included in the section which set forth the powers of the Board] orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks." The word "shall" has been changed in the new act to "may", doubtless because the Federal Reserve banks had often maintained that a member bank presenting eligible paper and needing funds because of loss of deposits or because of deficient reserves was entitled to credit, that the Federal Reserve bank could not undertake to determine for what specific purpose a credit, which in most cases had already been granted, was used. It was the contention of the Federal Reserve Board in its recommendations with relation to the Glass Bill in the spring of 1932, that Sec. 3 covered everything that was necessary to control speculation and that Sec. 7 was superfluous. Section 3 requires the chairman of each Federal Reserve bank to report to the Federal Reserve Board "any such undue use of bank credit by any member bank, together with his recommendation," and the Board may then after a reasonable notice and opportunity for a hearing "suspend such bank from use of the credit facilities of the Federal Reserve System."

### BROKERS' LOANS

THERE is still another section in the new banking act which has the same purpose, the limiting of loans "secured by collateral in the form of stocks, bonds, debentures and/or other such obligations, or loans made to members of any organized stock exchange, investment house or dealer in securities, upon any obligation, note or bill secured or unsecured for the purpose of purchasing and/or carrying stocks, bonds or other investment securities." This (Sec. 9 of the new Act) amends Sec. 13 of the Federal Reserve Act—the section which has reference to the powers of the Federal Reserve banks—defining the instruments of credit that are eligible for rediscount or purchase, etc. One of its paragraphs provides that any Federal Reserve bank may make advances to member banks on their promissory notes for a period not exceeding 15 days, provided such promissory notes are secured by paper eligible for rediscount or purchase, "or by the deposit or pledge of bonds or notes of the United States."

The amendment extends the period for advances to banks on their own promissory notes from 15 to 90 days, provided such notes are secured by eligible paper, but "if any member bank to which any such advance has been made shall, during the life or continuance of such an advance and despite an official warning of the Federal Reserve bank of the district or of the Federal Reserve Board to the contrary, increase outstanding loans secured by collateral in the form of stock, bonds, etc., . . . such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower of the Federal Reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine."

This section came in for a good deal of discussion at the time of its introduction. Its design was evidently to hold down brokers' loans, as most of the borrowings from the Federal Reserve of the banks of New York and Chicago, the Wall Street and the LaSalle Street banks, have been made on their own 15-day notes rather than on rediscounts. The omission of this amendment was also recommended by the Federal Reserve Board on the ground that Sec. 3 gave sufficient authority. These three amendments were, of course, due to the speculative era of 1928-29 which was largely financed on a tremendous expansion of brokers' loans. Here again the Federal Reserve Board could issue a direct warrant to a recalcitrant member bank over the head of the Federal Reserve bank of the district.

GLOBE

How far these three amendments are likely to be effective in accomplishing their purpose remains to be seen. A large proportion of the loans of member banks secured by stocks and bonds are not to be classed as speculative and frequently the Comptroller's examiners, when they think certain unsecured loans are doubtful, require the makers to put security back of them, which causes an increase of such loans quite apart from any speculative purpose. It cannot be doubted, however, that the amendments contained in these three sections will make member banks much more careful in the future in the matter of extending loans of a speculative character, and if they lead to the formation of banking tradition against the making of loans that cannot be paid without sale of the collateral they will have accomplished something worth while.

### INTEREST RATES

THE most important of the other increases of Federal Reserve power in the Banking Act of 1933 is the power of the Board to fix interest rates on time deposits contained in Sec. 11. Member banks are prohibited in this section from paying any interest whatever on "any deposit which is payable on demand," with certain exceptions relating mostly to deposit of public funds "made by or on behalf of any state" or other subdivision or municipality "with respect to which payment of interest is required under state law." Whether this exception is broad enough to include what are known as court funds on which interest is required by state laws in many states is yet to be determined. Obviously the prohibition of payment of interest on demand deposits would be likely to cause a shift from demand to time deposits, and the Board is, therefore, given authority "from time to time to limit by regulation the rate of interest which may be paid by member banks on time deposits, and may prescribe whatever rates for such payment on time and savings deposits having different maturities or subject to different conditions (CONTINUED ON PAGE 68)

# Certified Political Accountancy

**"Whether or not the Federal Budget is technically in balance is no longer a practical issue. It all depends primarily upon whether the Federal Treasury keeps one set of books or two sets of books"**

THE Government of the United States is spending a great deal of money. The balance of what the Federal Treasury receives and what it is to pay out may be known by various and sundry names such as the budget or the extraordinary budget, as special, recurring or non-recurring appropriations, as emergency expenditures or what-not, but the hard fact of the matter is that the last Congress and the current Congress have appropriated the sum of $7,454,691,847 to be expended for the support of the Government in the current fiscal year and for the emergency program. Against this total it has revenue in sight of about $3,000,000,000.

The last Congress appropriated $3,081,439,200 as the regular allowance for carrying on the Government with a few extras, not including the independent offices appropriation bill which was vetoed by President Hoover, or the District of Columbia appropriation bill which failed of passage and is only in part a charge upon the Federal Treasury.

The new Congress appropriated $4,373,252,647. This sum included $631,802,546 for the independent offices of the Government, $30,375,834 for the District of Columbia which the District mostly raises for itself, $994,597 for miscellaneous items and $3,710,079,670 for unemployment relief, recovery or whatever the emergency program may be called. There are also the $50,000,000 Muscle Shoals temporary allowances and sums eventually ranging up to $200,000,000 or so for the Civil Conservation Corps, funds for these projects coming for the time being from money originally appropriated for other purposes.

In time, no doubt, these statistics will be the subject of partizan controversy. The first shots have already been fired. Representative Bertrand H. Snell, Republican Leader in the House, takes the figures for the appropriations of the special session of the present Congress and shows that the budget is farther out of balance than it ever has been save in one year during the World War.

Representative Joseph W. Byrns and Senator Joseph T. Robinson, the two Democrat Leaders, take the same figures and show a balanced budget—always excepting, of course, the emergency appropriations for public works and other relief enterprises.

The public can take its choice. The fact remains that the money is being spent. It requires no great political perspicacity, however, to appreciate the situation. Partizan discussion and public approval or disapproval eventually depend upon the measure of success which attends the use of these tremendous outpourings of money. If they lead to business recovery there will be no partizan discussion—at least on the part of the opposition. If they fail to accomplish their object it will require no injection of partizanship to liven up the situation.

Whether or not the national budget is technically in balance is no longer a practical issue. It all depends primarily upon whether the Federal Treasury keeps one set of books or two sets of books—an ordinary set and an extraordinary set. Under the appropriations of the last Congress and the new Congress and basing estimates of revenue upon the actual revenue collections of the last three months of the fiscal year just closed, the ordinary budget for the new fiscal year indicated a deficit of between 14 and 15 hundred million dollars. Against this the new Congress imposed a beer tax which now promises to produce about $150,000,000 for the year and an additional half cent a gallon on gasoline, which may produce another $50,000,000. These taxes would reduce the anticipated deficit to around a billion and a quarter dollars. The economy program was expected to dispose of this deficit and, on paper, has gone a long way towards doing so.

The original cuts in allowances for war veterans were too deep for the politicians and modifications of the original order both by Congress and the Executive will probably restore about $120,000,000 of the $400,000,000 slashed. Departmental cuts also in many cases were found to be impracticable from a political if not an economic viewpoint and gradually original expenditures in many cases have been at least partially renewed. Thus no one knows what the actual savings under the economy program will be—not even the Government itself.

After all, what is the budget between friends? Call an appropriation by another name and it will go just as far. The ordinary budget of the Navy has been slashed radically. But the public works-unemployment relief fund provides for the construction of 32 new vessels at an expenditure of $238,000,000 and the Navy Department is planning to (CONTINUED ON PAGE 64)

**The New Bookkeeping caused the Treasury to start issuance of ordinary and extraordinary daily statements. The first of these was dated July 1**

| | |
|---|---|
| Emergency (see note 3): | |
| Federal Emergency Administration of Public Works | 111, 617. 05 |
| Administration for Industrial Recovery | 1, 540. 99 |
| Administration of Emergency Conservation Work | 765, 944. 25 |
| Reconstruction Finance Corporation | 8, 412, 118. 44 |
| Total | 9, 291, 220. 73 |
| Total expenditures (see note 4) | 85, 073, 334. 47 |
| Excess of receipts | |
| Excess of expenditures (see note 4) | 80, 709, 217. 15 |

By F. D. FARRELL

# Farm Adjustment Begins

**"Nobody knows whether the farm adjustment program will succeed. Its sponsors describe it frankly as an experiment. It seeks to socialize agriculture at least to the extent that farmers, in what is believed to be the public interest, will restrain their production activities and that processors, distributors and consumers will contribute something toward paying farmers for exercising this restraint," says Mr. Farrell, who is president of Kansas Agricultural College and a member of the Advisory Council, Agricultural Commission, American Bankers Association**

THE Agricultural Adjustment Act of May 12, 1933, represents a sector of a wide battle front in a war against the conditions with which agriculture has contended since the summer of 1920 and with which industry and commerce have struggled since the autumn of 1929. The agricultural program that is being set up under the provisions of the Act is a part of a comprehensive national economic program that seeks frankly to bring about fundamental changes in our methods of utilizing natural resources and of producing and distributing economic goods. The larger program calls for greatly increased socialization of our economic activities, for extensive large-scale, long-time planning and for certain definite controls, both private and governmental, that are necessary if socialization and planning are to be effective.

The Act is divided into three parts. Part I relates to Agricultural Adjustment and is to be administered by the Department of Agriculture. Part II, relating to Agricultural Finance, is to be administered by the Farm Credit Administration. Part III, which provides for Monetary Control, is to be administered by the Treasury, the Federal Reserve Board and the President. This part of the Act involves not only agriculture but all business. While it is important to recognize that the three parts are interrelated and that the Act as a whole is but a part of a still larger national program, this discussion will deal only with Agricultural Adjustment, and that only in part.

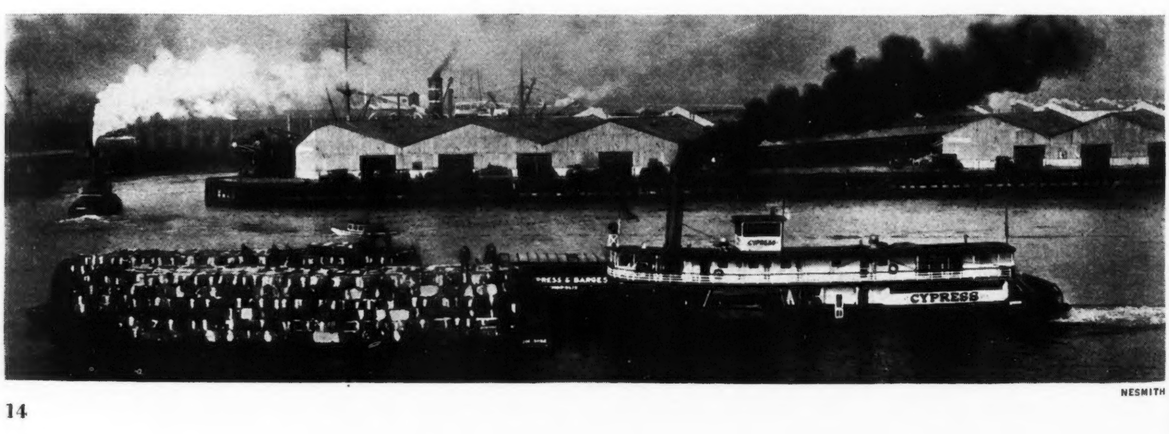
The objectives of Part I of the Act are both economic and social. In part, the policy of Congress as declared in the Act is to restore the purchasing power of certain specified farm products to the average level of the 5-year period ending with July, 1914. With one specified product, tobacco, the period is August, 1919, to July, 1929. The products specified in the Act as "basic commodities" are wheat, cotton, hogs, field corn, rice, tobacco and milk and its products.

The adjustment programs definitely are based on the fact that prices are determined primarily by supply and demand. "The cotton grower should realize," says the Secretary of Agriculture, "that the price of cotton this fall when he markets his crop will be determined primarily by fundamental economic factors which will be adverse unless something is done." They also are based on the assumption that the export business in agricultural commodities will not soon return to its volume of five or ten years ago.

The procedure by which adjustment is to be attempted involves the principle of domestic allotment, or in some way is related to domestic consumption. For reducing acreage, the farmers who participate in the program are to be paid by the Federal Government. The amount of the payment, or allotment benefit, is to be determined by the amount of the commodity that is consumed domestically. For example, if 60 per cent of the total wheat crop of the United States is used for human consumption in this country, the wheat farmer who contracts with the Government to reduce his wheat acreage to the extent required by the Government (not more than 20 per cent) will receive on each bushel of 60 per cent of his wheat crop a benefit payment sufficient to make the price per bushel a "parity price". The "parity price" is a price that will give a bushel of wheat its pre-war purchasing power.

The plan seeks to provide higher

**Two million cotton growers in 820 counties, according to some estimates, will be offered an opportunity to take part in the Government's program**




NESMITH

prices for wheat but to prevent the increase in production that normally results from higher prices.

The adjustment mechanisms for wheat and for cotton are somewhat different in detail but substantially alike in principle. A description of the wheat mechanism will illustrate the principle. The total quantity of wheat on which allotment benefits may be paid in Kansas for 1933 is based on the average annual production of wheat in Kansas for the 5-year period ending with 1932. The same method is used, of course, for all wheat producing states. The corresponding quantity for Barton County, Kansas, is based on that county's average annual production for the same 5-year period. These quantities are ascertained from production statistics of the United States Department of Agriculture. The wheat growers in Barton County who contract to reduce their wheat acreage form a "county wheat production control association." This association then adopts one of two alternative plans for determining the allotment for each individual member. In each plan the individual farmer's allotment is based on the acreage and production of a 3-year period.

### TWO PLANS

IN one plan, the individual's allotment is based on the average acre yield for the county for the three years 1930, 1931 and 1932, multiplied by the individual's average annual wheat acreage for the same three years. In the other plan, the individual's acre yield, instead of the average acre yield for the county, and the individual's average acreage are used to determine the allotment. The first plan is simpler and less expensive to administer. The second plan is more fair to those farmers whose acre yields are high, but it is more cumbersome and more expensive to administer. As each county wheat production control association will pay its own operating expenses, it may be that the first plan will be the more popular of the two.

When the allotment of an individual wheat grower is determined the county association officers certify it to the Government and the grower receives from the Department of Agriculture a predetermined amount on each bushel of his allotment. Suppose, for example, that Farmer Brown produced 100 acres of wheat each year in 1930, 1931 and 1932, and that his average production was 1,000 bushels a year. Suppose, also, that domestic (human) consumption of wheat was approximately 60 per cent of the total United States crop. Farmer Brown's allotment then would be 60 per cent of his average production, or 600 bushels. The benefit payment on each bushel of his allotment would be the amount of the processing tax (to be mentioned later), less administrative costs. These costs are expected to be about 2 cents a bushel.

If the net benefit payment was 28 cents a bushel, Farmer Brown's benefit payment would be $0.28 x 600, or $168. This is the amount that Farmer Brown would be paid for reducing his wheat seeding to not more than 80 acres in the autumn of 1933. This $168 would be in addition to what Farmer Brown would receive for his wheat when he sold it. Moreover, his contract with the Government will provide that similar benefit payments will be made on his wheat crops of 1934 and 1935 in return for his keeping his acreage reduced.

In short, the plan offers wheat price insurance for 1933, 1934 and 1935, for the domestically consumed portion of the wheat crop. The insured price is to be sufficiently high to give the domestically consumed portion of the wheat crop pre-war purchasing power. If the plan is as effective as its sponsors hope it will be, the reduction in supply may influence wheat prices so that the entire wheat crop will have pre-war purchasing power.

Funds for paying the allotment benefits are to be provided by processing taxes. On June 27 the processing tax on wheat for 1933 was proclaimed as 30 cents a bushel. The processing tax will increase the price of flour. But the Department of Agriculture claims that not all this increase should be reflected in the cost of bread to consumers. The Department states that in the five-year period 1909-13, hard winter wheat sold at Kansas City at 95 cents a bushel, flour sold at $4.38 a barrel and bread retailed at 6 cents a pound; but that in 1932 when wheat was 46.9 cents and flour was $3.85 at Kansas City, bread retailed there at 6.7 cents a pound. "While wheat prices fell 50 per cent," says the Department, "bread prices rose 10 per cent. Such a spread suggests that at least a part of the processing charge should be absorbed in the spread between the producer and consumer."

NESMITH

**Before either allotment or production control was necessary**

A few brief observations regarding the adjustment program for wheat will illustrate some of the basic principles involved in the larger program for farm adjustment:

(1) The plan is purely voluntary. The Government will not require any farmer to sign the acreage reduction contract. Unless a substantial number of wheat growers sign the contract, the plan cannot succeed. To get allotment benefits a farmer must sign the contract and reduce his acreage as the contract requires. But any farmer who so desires can decline to sign the contract and can expand his acreage as much as he likes.

(2) The local operation of the plan is in the farmers' hands. The county wheat production control association is to be managed democratically, so that a substantial responsibility for the success of the plan will rest with the farmers themselves.

(3) The plan does not restrict the farmer's liberty in marketing. He can sell his wheat when, as and to whom he pleases. If he signs the contract, he must plant (CONTINUED ON PAGE 52)

# Interest Rates After the Banking Act

By GEORGE E. ANDERSON

IF ANY proof had been needed of the extreme delicacy with which legislation affecting the banks of the country must be drafted and applied, that proof has been supplied in the care with which the Federal Reserve authorities are finding it necessary to draft the rules and regulations governing the payment of interest on time and savings deposits as provided for in the new banking law.

There is considerable ground for suspicion that the blithe readiness with which Congress passed to the Federal Reserve Board the power to establish such regulations was founded more upon a desire to pass the buck than upon any particular willingness to give the central banking authority powers of such wide-reaching influence. The history of the portion of the new banking act which applies to interest on deposits is illustrative of the situation and of the problems it involves.

The original Glass bill, introduced by the Virginia Senator on January 21, 1932, provided that member banks should pay no interest on checking accounts, while the maximum rate of interest to be paid on other accounts was one half of the rate of interest on loans provided for in the statutes bearing upon the subject. On bankers' balances with bankers the maximum rate was not to exceed the current rate of discount in the Federal Reserve district or 2½ per cent, whichever was lower. The second Glass bill, introduced in the Senate on April 18, 1932, avoided the issue and made no provision as to interest on deposits. The third Glass bill, introduced May 1, 1933, contained the provisions as to interest on deposits which finally became the law.

In other words, investigation by the Senate subcommittee which drafted the several bills including the final act disclosed the fact that interest on deposits was a very complicated subject which, for the benefit of all concerned, had best be left to the bankers of the country within the limits of a broad policy laid down by Congress. That policy was contained in the provisions in the new law that no interest shall be paid upon demand deposits and that regulations governing the payment of interest on other classes of deposits would be left to the discretion of the Federal Reserve Board.

### A WIDE SURVEY

THE Federal Reserve Board in turn and in the exercise of this discretion found it advisable to pass the matter along to the banks of the country themselves to some extent. Each Federal Reserve bank has been instructed to canvas the situation in its district and make a report with recommendations to the Board to guide the latter in its action. The Reserve banks in their turn have been making a survey of each district through local or regional clearinghouses, large banks and otherwise to secure data on which to base recommendations. This survey has progressed far enough to disclose a wide divergence in opinions of bankers on the subject and a maze of conflicting interests which renders a solution of the problems involved a matter of extreme delicacy and difficulty.

This divergence of interest and difficulty of adjustment arise chiefly in problems growing out of the sharp difference now made in the law in the treatment of time and demand deposit accounts. Under the new law, that middle ground wherein deposits subject to check had interest benefits approaching those of time or savings accounts, while savings and time accounts became in practice payable more or less on demand and partook of the advantages of commercial accounts, has been done away with. Banks and their depositors find it difficult suddenly to adjust their practices to the new code and there is general fear among banking authorities and banks that deposit bootlegging may be the result. The code of regulations to be drafted and promulgated by the Reserve Board, accordingly, has a force and importance not indicated in the law itself.

With respect to demand deposits the law is explicit and needs no interpretation. It is the effect of the prohibition of interest on demand deposits on other accounts which is troublesome. The law provides that "no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand."

The only exceptions are deposits under contracts in force at the time the law went into effect which shall not be renewed, deposits of mutual savings banks, deposits payable at a foreign branch of a bank and deposits of public money where interest thereon is required by state law. This provision relieves the great mass of the banks of the country of a real burden which has affected their earnings seriously ever since the beginning of the business depression and indeed for years before, but its effects upon the deposit structure of banks, upon the relations of metropolitan and

**The general situation is illustrated by the effect on metropolitan banks of the prohibition of the payment of interest on demand deposits. This prohibition resulted in an immediate shift of deposits in three directions. First, there was the withdrawal by country banks of a considerable part of their metropolitan demand balances which were no longer income producing. Secondly, there was a shift of demand deposits to time deposits in various categories. The third phase was the withdrawal of demand deposits for investment, particularly in short term Government securities and 90-day bankers' acceptances.**

**• It will be comparatively easy for the Federal Reserve Board to establish maximum rates of interest which member banks in the several Reserve districts or even in particular localities in each Reserve district shall pay on time deposits of the various categories.**
**• The Board has wide discretion in the matter and can adjust the rates authorized to meet any local conditions.**
**• It can, and probably will, prescribe maximum rates and leave the actual rates and various adjustments to the banks and local clearinghouses. However, it is not so easy to prescribe rules and regulations which will make these rates effective.**

country banks and upon investment markets are as yet uncertain and indicate certain reactions probably not contemplated by Congress.

The Act cuts more ways than one and, without any allowance for gradual adjustment, has suddenly disturbed if not broken up connections between correspondent banks which have existed ever since the banks themselves have existed. On the one hand it relieves banks of a burden of interest which amounted to $113,168,000 in member banks in the Federal Reserve alone in the fiscal year 1932, paid out as interest on their own demand deposits, but it also takes from them earnings from their deposits in other banks which have been a material part of their own earnings. It is quite evident that the positions of all banks in the matter are not alike. To some extent the interests of the metropolitan and country banks are not the same. Nor is the position of banks in one part of the country in the matter identical with that of banks in other districts.

In the first three weeks of the operation of the new Act, reporting member banks in New York City showed a loss of $495,000,000 in demand deposits while time deposits gained $98,000,000 in the same period. The amount due from New York reporting banks to their correspondents fell by about $210,000,000. Demand deposits in the New York Clearing House banks in about the same period fell off $440,743,000, while time deposits increased by $102,719,000.

How much of the loss in demand deposits was due to the usual mid-year demand for funds for tax payments and other mid-year settlements and cash for the July 4 holiday and how much to a shift of funds due to interest payment changes is uncertain. In the same period of 1932 the loss in demand deposits in the New York banks was $128,000,000. From this it would appear that the shift of funds from the New York banks to country banks was about $82,000,000 and, allowing for the increase of $98,000,000 in time deposits, would indicate that something like $187,000,000 went into investments.

THE New York Reserve Bank reports that in the week ending June 21—with scarcely a week's operation of the new law—the holdings of Government securities by the New York banks increased by only about $86,000,000, although the allotment of Government issues to these banks amounted to about $300,000,000. The presumption is that most of the balance was taken up by depositors. Several large corporations also are known to have invested a considerable portion of their demand deposits in acceptances. In such cases, of course, depositors rather than banks become investors and the banks lose only what small profits are possible in employing demand deposits in such classes of investments. It is probable, also, that funds withdrawn from the metropolitan banks by country banks also go into similar investments. The reduction in their deposits naturally deprives the metropolitan banks of a pro rata ability to absorb readily new security issues, particularly Government short term borrowing. It also results in a reduction of the necessary reserve balances with the Reserve bank—nearly $10,000,000 on the deposit decrease above noted, which, in turn, at the ordinary ratio can be expanded into about ten times that amount in available bank credit. In the meanwhile the banks must earn higher interest on the $98,000,000 transferred from the demand to the time categories to correspond with the higher cost of the deposits.

The position of most small banks is illustrated by the case of a small suburban bank just outside of New York City. It had two depositors who normally carried a balance of about $20,000 each, payable on demand. The accounts were not very active and the balances were fairly steady. On these balances the bank paid the rate of interest on demand deposits prevailing in the City and even under current conditions it was able to earn a profit upon them. When the payment of interest on these demand deposits was stopped, however, these two depositors transferred the bulk of their accounts to savings accounts on which the bank, under prevailing rates, is to pay 4 per cent interest. The result has been that the two accounts which formerly were profitable now represent a loss to the bank.

The temptation on the part of both bank and depositor under such circumstances to adopt an arrangement of some sort which will give the depositor a fair rate of interest while allowing him checking privileges and at the same time allow the bank a profit instead of the loss it now sustains is almost irresistible. It is in dealing with such a situation that the drafting of the regulations by the Reserve Board and any agreement among bankers as to just what these regulations shall be become difficult. While in theory the abolition of the payment of interest on demand deposits has no direct bearing upon interest paid on time, savings and other term deposits, in actual practice it has a very important bearing and in reality involves the chief problem the banks of the country now face in the matter.

It is inevitable that depositors who have heretofore carried accounts payable on demand on which they received interest should transfer such accounts to the time categories and then endeavor to use them as far as possible as demand accounts. (CONTINUED ON PAGE 52)

**In country banks there has been much the same shift of deposits from the demand to time classifications and, aside from the outward movement of funds from the metropolitan banks, the problems involved are much the same. The most acute problem is that of securing earnings on funds withdrawn from metropolitan correspondents and increasing earnings on deposits transferred from the demand to the time classes to correspond with the higher interest they pay.**

# State Lawmakers Re-examine Trust Laws

PRESENT trends in state legislation affecting trust institutions are revealed in the bills introduced and the acts passed at the 1933 sessions of state legislatures. Most of the state legislatures will not meet again until 1935. It is to be expected that a number of the points that were the subject of legislation in a few states only during the 1933 sessions will be the subject of legislation in a larger number of states in 1935.

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THE first thing that impresses one is that much of the recent trust legislation is the result of the study and research of special commissions and not the usual hurried and sometimes haphazard action of legislative committees. For example, Delaware has for two years had two commissions appointed by the governor under legislative authority, one working on banking and the other on trust legislation. The 1933 session of the Delaware legislature readily passed the laws recommended by these two commissions, giving to the state well considered banking and trust legislation.

In Indiana a study commission for Indiana financial institutions employed a research staff and made a thorough study which resulted in the adoption of the Indiana Financial Institutions Act of 1933. Massachusetts has had a special commission on the law of trust companies composed of four members of the Massachusetts General Court and three bankers. Mississippi has had a bank study commission which has been engaged in a comparative study of bank and trust company legislation. Pennsylvania has had a special commission to codify its banking and trust laws. In Utah a committee of the Utah Bankers Association and the state banking department have recently cooperated in modernizing the laws of that state. The methods of approach and the findings of these commissions should be very helpful to similar commissions or committees in other states.

One of the trends is the better protection of uninvested trust funds. In Ohio a bill was introduced requiring that the published statement of the condition of a trust institution should clearly set forth the amount of the moneys deposited by the trust department in any other department of the institution, together with a statement that such moneys constitute a preferred claim against the assets of the bank. Such bank or trust company is required also to make to the superintendent of banks a bi-monthly report of all moneys (in amounts over $500) held by it in a fiduciary capacity, whether cash or on deposit, which have been so held for more than three months without being invested. The bill also contains a provision that moneys held in the trust department pending distribution or investment may be treated as a deposit in the trust department or may be deposited in any other department of the bank subject in other respects to the provisions of law relating to the deposit by trustees and others.

But in case of insolvency, closing or suspension of any bank or trust company, claims for such moneys hereafter so deposited in any other department of such bank or trust company become preferred and the properties and assets of such closed bank or trust company are impressed with a trust for the payment thereof. A similar provision in substance was adopted by the Delaware and Indiana legislatures. In Utah the bank or trust company is required to put up securities against trust deposits. The Indiana legislature further prohibits a bank or trust company from holding uninvested trust funds in excess of $1,000 in any one trust account for a longer period than six months unless needed for current taxes or claims. There is a clear and unmistakable trend in state legislation towards making uninvested trust funds on deposit in the banking department of a bank or trust company special deposits or preferred or protected claims.

There is a noticeable trend towards defining statutory trust investments with greater particularity. Nebraska, Indiana and Minnesota—especially Minnesota—have recently passed trust investment statutes that prescribe minutely the requirements of trust investments. These statutes prescribe a number of technical standards that the proposed security must satisfy on such features as defaults, earnings and sources of the earnings. One wonders if the state legislatures are not going too far in reducing trust investment to a rule-of-thumb procedure and thereby relieving the trustee of the exercise of its own judgment.

In the light of the growing interest in commingled trust funds, the following excerpt from a bill introduced in the legislature of Vermont is particularly significant:

"Trust companies may in their discretion asso- (CONTINUED ON PAGE 41)

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## Three Trends in 1933

**Better protection of uninvested trust funds**

**More exact definition of statutory trust investments**

**More attention to segregation of trust funds**

## Nationalism Is in the Ascendency

# The Alternatives In Stabilization

IF THE United States is to permit or even force the devaluation of the dollar in the course of its national recovery program it refused at least to permit that fact to be officially registered in London. International conferences may come and they may go but the domestic recovery program managed in Washington will pursue its prescribed way. Although the American unit, backed by over $4,300,000,000 in national gold stock, has reached the lowest quoted value ever known in its speculative gyrations, chiefly due to the export of American capital by Americans, a thing like that is not to be permitted to interfere with American price lifting.

It seems that there are two varieties of monetary stabilization. One is the stabilization or pegging of the rate at which the currency of one country is transferable into the currency of another country. That is the stabilization of the dollar sought by the so-called "gold bloc" in Europe. Another variety is the fixing of the value of a currency in terms of debts, commodities and transactions within a country itself. This is the stabilization sought by the authorities in Washington. The theory of Washington is that the stabilization of international exchange rates on a permanent basis is practicable and useful only after there has been domestic stabilization between money and commodities and debts. It is upon this theory that the policy of the Government in Washington is now based.

Nor, as a matter of fact, are the gold bloc countries of Europe, with the possible exception of The Netherlands and Switzerland, in a position to object. In its present policy the United States is merely following their lead. France, the leader of the bloc in the recent unpleasantness in London, was off the gold standard for nearly a decade after the War. It effected stabilization between its money, commodities and debts by devaluing the franc more than 80 per cent, repudiating much of its indebtedness in the same proportion and lifting domestic prices in fair proportion to the devaluation. Italy and Belgium followed the same course. Great Britain, after about five years off the gold standard, attempted the restoration of the old or par relations between money, debts and commodities and failed. In the past 21 months it has again allowed a natural adjustment between these factors. The Netherlands and Switzerland have been able so far to maintain the old or par relations between their currencies and price and debt factors and have been willing to do so, deeming the policy one of ultimate advantage to themselves. The United States has been able to maintain the same relation but in seeking a way out of the industrial, agricultural and commercial depression it has been unwilling to do so.

Whether or not the present American policy is the wise policy under domestic and world conditions, the fact is that we are in for it. The Government has adopted the policy and it has the power. It proposes to raise the domestic price level to that of 1926 or an average of the 1924-1925 level or some such point. It proposes to do this by such combination of public works expenditures, inflation of currency or credit or other artificial stimuli as may be necessary to accomplish its purpose. Under the theory on which the Government is now working, the ultimate gold content of the dollar would be established automatically by the amount of gold a dollar in the "managed currency" would buy in a free gold market when the desired price level for commodities and debts has been reached.

For years the Treasury price for gold has been $20.67 per ounce. If, at the time the desired price level has been reached, an ounce of gold sells in the open market for $34.45, which is the price the comparative index figures indicate, we would have a 15.48 grains-of-gold dollar instead of the 25.8 grains dollar at present and the dollar would be devalued 40 per cent in the same manner that the francs in France and Belgium, the lira in Italy and other monetary units in Europe have been devalued 75 per cent or more. It should be noted that under the managed currency policy of the Government this devaluation would come after the stabilization of the dollar in terms of commodities—not as a means of effecting that stabilization but as a result. It is quite possible—probable, in fact, in view of the general creditor position of the United States—that the dollar would buy more than 15.48 grains of gold. It might well buy 25.8 grains and there would be no devaluation.

In the meanwhile the abandonment of the dollar in its international relations to such value as the interplay of financial, speculative and commercial forces may establish is a great disadvantage to the world. The experience of other countries has (CONTINUED ON PAGE 52)

**President Roosevelt and Mr. Baruch**

KEYSTONE

# The Debt-Payer's Dollar

## A Tractable Unit Is the Aim

By EDWARD H. COLLINS

A LITTLE more than three months ago the question that was being asked most frequently was, "Do you think we are going to have inflation?"

That question has been pretty clearly answered by events since mid-April. It became a probability when the gold embargo was announced on April 19; it became a virtual certainty when the Thomas inflation bill was passed eight weeks later; and it became an actuality during the London Conference when the President made clear to the world that, regardless of what happened to the dollar, he was going to raise prices in this country.

Now that inflation has become an accomplished fact, a new question, however, has projected itself into the foreground. The new question is, "Are we going to return, eventually, to the gold standard as we knew it before April 19, or are we going to supplant that standard with some kind of "managed currency"? This question has been a subject of lively discussion since President Roosevelt, in his now famous ultimatum to the London Conference, declared that "the United States seeks the kind of a dollar which a generation hence will have the same debt-paying power as the dollar value we hope to attain in the near future. . . ."

This statement caused some lifting of eyebrows among members of the orthodox currency school, but no great interest was aroused until a few days later, when it was announced from the White House that Mr. Roosevelt had summoned to Washington as special advisers on currency matters two economists whose names have been conspicuously linked with "reform" of the gold standard. The two are Professor James Harvey Rogers, of Yale, and Professor George Frederick Warren, of Cornell.

Professor Rogers, who is Sterling Professor of Political Economy at New Haven, has never been identified with the more radical currency reformers, though he has been a staunch advocate of open market operations since early in the depression. Writing in the *Economic Forum* early this year he urged, as a means of "restarting the economic machine", that the Federal Reserve purchase $25,000,000 in Government securities weekly. If he has never come out for tinkering with the monetary standard itself, however, he none the less seems to have a pronounced, if rather vaguely defined, contempt for that standard.

Professor Warren is distinctly more radical than Professor Rogers, as well as more articulate. He has been one of the most vocal of our devaluationists as a means of ending the depression, while he favors some form of managed currency to support the price structure at the new level to which it is expected to be carried by the processes of devaluation. The so-called Committee for the Nation, a group of industrial leaders who believed that the only way to end the depression was through inflation, "adopted" this Cornell professor as its "expert" early in the campaign. In the final drive against the dollar the influence of the Committee for the Nation is believed to have been a considerable one.

In the study, "Prices", in which Professor Warren collaborated with Professor Frank A. Pearson early this year, we find the authors asserting that "if this kind of price-fixing (on gold) is not corrected it is in danger of forcing some kind of socialistic state that will attempt to regulate distribution by Government action. . . ."

It is interesting to note that as regards prices the authors not only are receptive to the so-called "compensated dollar" of Professor Irving Fisher of Yale, but that they go out of their way to make a special plea for it. The only quarrel that they have with Professor Fisher, in fact, is that they would go a step beyond him, using a combination of gold and silver instead of simply gold, as the monetary standard.

Whether the Fisher plan is to be given a trial by the Administration or not, its status, in view of the fresh prominence that it has achieved, is worth reviewing.

Professor Fisher's idea, briefly, is that the gold dollar should cease to be a constant weight of gold, with fluctuating purchasing power, and should become a fluctuating weight of gold with more or less constant purchasing power. There would no longer be any coinage of gold. The Government's gold supply would be kept in gold bars, and actual circulation, as at present, would consist of representative money. All of the currency would be exchangeable for gold, but the amount of gold for which it would exchange would vary with the price level. If prices, as measured by some generally acceptable index, should fall 0.1 per cent during the month the weight of gold purchasable with a dollar would decrease 0.1 per cent; and vice versa.

When the Fisher theory was last brought into prominence by the violent rise of prices in 1920 it was widely commented on, but, so far as the principal economists of the country were concerned, this comment was nearly all unfavorable. The currency commission of the American Bankers Association rejected it in its report to the annual convention of the organization in 1920. As a matter of fact, Professor Fisher himself would probably be the first to admit that the chief reason why the "commodity dollar" has remained a subject of academic debate these 20 years is that it suffers from two limitations which make it practically unworkable. One of these is the fact that it would break down under the pressure of an inflation such as was witnessed during the War period; the other is that to be effective it would have to win, not merely national, but world, support.

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**Mr. Collins, who outlined the background of the London Conference in the June JOURNAL, is financial news editor of the New York *Herald Tribune***

# Stock Prices

## Their Political Importance

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The stock market crash on Black Thursday in 1929 ushered in a worldwide depression. From that date on, the Government, as well as interested investors, has studied market averages for signs of improved conditions

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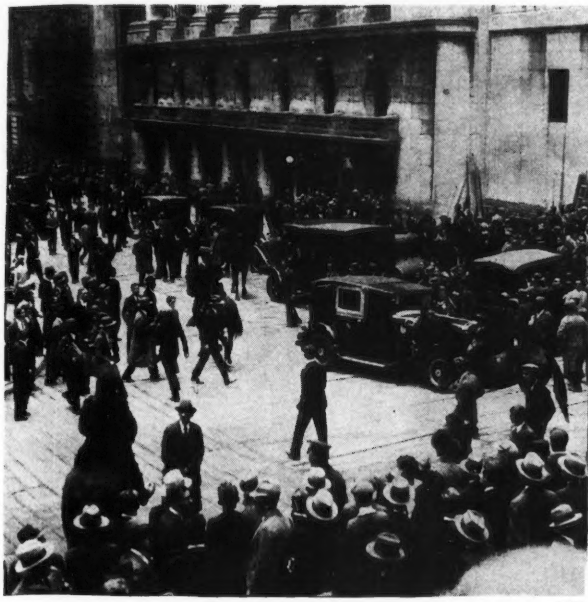
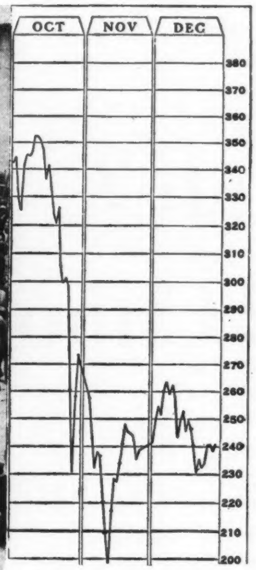


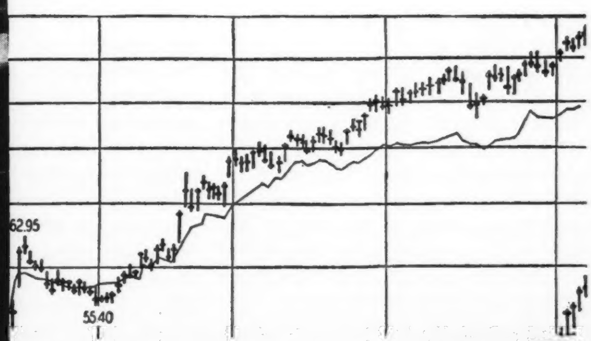
ACME

Wall Street swarmed with sellers as soon as the seriousness of the slump became apparent. This photo was taken soon after the panic began




The Dow-Jones averages dipped 150 points in one month near the end of 1929

GLOBE




BARRON'S

GLOBE

On April 21, in the early stages of revived interest in securities, President Roosevelt greeted the British Premier. Five days later they issued a joint communiqué expressing general agreement on a program for world trade revival. The upward swing of the stock market gained added momentum while conferences with foreign leaders were in progress. June transactions broke all former records. Then on July 3 the London Conference received the President's blunt message of non-cooperation. The chagrin of Mr. MacDonald was very clearly implied in a semi-official British comment: "There must have been a change since the President and the Prime Minister had their recent conversations at Washington."

# Real Estate? Pick and Choose


By
H. W. UNDERHILL

**The author is manager of the mortgage loan department of the Citizens National Trust and Savings Bank of Los Angeles**

SAVINGS deposits—the only deposits which national banks, and probably most state banks, may lend on real estate—are, in effect, demand deposits. They must be so regarded under the practice which permits withdrawals at any time at the depositor's option. It is fundamental to sound commercial banking that loans and investments must be of distinctly liquid character. And is it any less essential to sound banking that we attempt an approach to liquidity in the loans made from savings deposits which by custom enjoy the same withdrawal privileges as commercial deposits?

In the nature of the case a real estate loan cannot be regarded as liquid. It runs for a period of years; and the money loaned is put to capital uses, rather than operating uses. The commercial loan by its very purpose provides the means for repayment, and from the moment the borrower receives credit his use of that credit is tending toward its liquidation. We cannot hope to parallel that in granting real estate loans, but we can undertake to grant only loans which tend to liquify rather than freeze—loans which can be easily repaid by the borrowers; loans which customers can reasonably expect to refinance, if necessary, through almost any established lending agency; loans which are so conservatively made as to be readily sold, if desired. Necessary to such a basis are (1) financial responsibility on the part of the borrower, (2) discrimination in respect to properties acceptable for loans, (3) restriction in size of loans and in percentage of loans to appraisals, and (4) at least partial amortization during the life of the loan.

Few banks are so fortunate as to have escaped the ownership of foreclosed real estate among their assets. Few will be so fortunate as to escape it in future. The number of loans which must be foreclosed, however, will be reduced through following the policy just suggested, and the property will be more readily salable than some which banks have acquired in the past because it will be owned at a figure that permits naming a selling price attractive to the buyer. Thus the real estate item among assets will come nearer to liquidity than it does in most instances today—as near liquidity, in fact, as could be possible with real estate.

### TYPES OF PROPERTIES

FIVE classes of real estate are considered in this discussion: residence property, residence income property, business property, industrial property, and farm lands. In a general way every test specified above for a loan applies to each class. Because of the difference in the nature and the use of the various properties, however, it is necessary to examine each in detail.

No matter how adequately an individual property might cover a desired loan, the loan would be a poor one at the start if the borrower lacked financial responsibility to warrant full expectation of repayment. This is elementary, but there are some specific applications which it may be worthwhile to examine.

The complete financial statement of the borrower might reveal junior encumbrances on the property, and the amount and method of repayment of such encumbrances demand attention. Do they so reduce the borrower's equity that, in the event of real estate market declines, he will have little incentive to try to preserve his equity? Do they impose on him a burden of carrying charges, that threatens his ability to handle the senior loan or that might occasion delinquencies on the junior loans with resulting annoyance to the senior loan? In the case of the borrower on residence property, it is necessary to know his occupation, income and other financial assets and obligations to make this part of the picture complete.

The financial statement of the borrower on residence income properties must be examined not only on those

## Financial Responsibility of Borrowers

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## Properties Acceptable for Loans

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## Restrictions in Size of Loans

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## Partial Amortization

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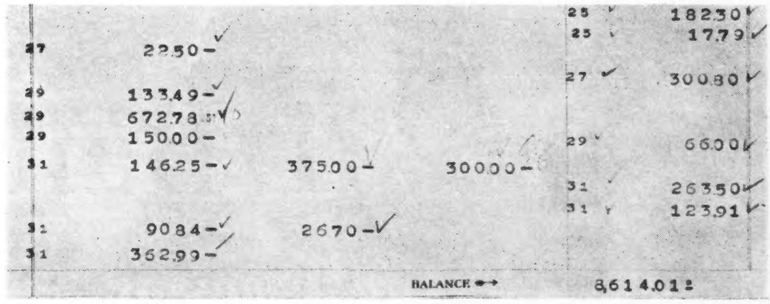



The loan would be a poor one if the borrower lacked financial responsibility . . .

points, but also to discover the comparison between rental receipts and operating expenses. The statement should be detailed in these particulars, and the details should be closely scrutinized. Thus it will be possible to learn not only the amount and constancy of rentals, the percentage of vacancies, etc., but also whether operating expenses indicate careful and businesslike management. Much the same thing is to be said of business property loans, although the detail will be less than for residence income properties.

The financial statement of the borrower on industrial property is especially important, and both the net worth of the borrower and the present operating conditions of his business must be considered. It would be the part of wisdom to go even further and to make some study of present conditions in his industry. The business should be in such condition as to give the lender reasonable assurance that the property, during the life of the loan, will not be levied on to satisfy any personal property or corporation franchise taxes, either of which would take priority of course over a pre-existing mortgage or deed of trust.

### PHYSICAL REQUIREMENTS

NEXT are suggested some physical requirements of properties offered as security for loans. They will be regarded by many bankers as severe, and they are intended to be severe because we shall be better off with fewer and better real estate loans than with loosely made loans. The requirements are not intended to hamper lending activity, but rather to guide it along sound lines. They will of course be subject to modification in different territorial areas.

FAIRCHILD AERIAL SURVEYS, INC.

**Fickle**

**American towns have been fickle in choosing which direction to grow**

For example, among the regulations imposed in the list which follows is one that no loan shall be made on a residence older than five years without due consideration to depreciation and salability. That rule would be of little importance in many parts of the country, but in newer and more rapidly growing communities there are many changes both in style of homes and in popularity of newly developed residential districts. Similarly the five year age limit on residence income properties may be of less importance in certain parts of the country.

The requirement that an apartment house be furnished also calls for specific comment, as it may be less important in some sections where the small unfurnished apartment is in little demand. Where applied, however, the demand for chattel mortgage on the furnishings is to protect against the borrower's loss of furniture already under chattel mortgage or sales contract. Loss of the furniture would mean loss of tenants and consequent interruption of income, and it would jeopardize the loan. In the event of foreclosure the lender will be forced to operate the property and should not have to refurnish. Moreover, the property would be more readily salable if fully equipped.

With these general comments the factors which should determine the acceptability of a property as security for a loan may be listed as follows:

*Residence Property.* A single residence unit, occupied by owner. Age of building preferably not to exceed five years. Proper relation between value of land and value of improvements. Generally improvements should be double the land value.

Size of lot: not less than 40 x 100 feet. Street improved with asphalt or cement surface; with cement curbs, sidewalks, and public utility service installed. Building lathed and plastered on interior, and (CONTINUED ON PAGE 60)

**Mr. Whipple is vice-president of the Bank of America in California, San Francisco**

# 1 Bank

## Head Office: Washington

By HOWARD WHIPPLE

SUGGESTIONS for the nationalization of banking—vesting ownership and control in the nation instead of individuals—are not particularly new. They were voiced in post-war England during her economic disturbances of 1919 and subsequently; and they are voiced even now in bewildered America. While American sponsors are not as vociferous as their British predecessors, consummation of the idea is closer by suggestion in America today than the former program of England's radical political element ever was.

That is rather difficult for Americans to believe, for we have had no noticeable political agitation in that direction. As yet America is too solidly capitalistic for that. But in spite of our political preachments for Mammon, we already are practicing, through the operations of the Reconstruction Finance Corporation, a mild or incipient form of nationalization.

Why not? ask the socialistically inclined. Why not go all the way—have but one bank and that owned by the Federal Government? To enthusiasts for Government ownership, the proposal has plenty of seemingly plausible merit.

Briefly, their thesis is that since private banking has made a muddle of things, public banking supposedly could not fail to be better. Under private banking, depositors have lost billions. Under public banking why should there be any loss?

Then there is the other side of banking, the discount function. Under private banking, loans have been called, making the depression worse; recovery has been hindered because credit has been denied by fusty old jaguars whose ruling passion has been that of self-preservation. But the Government bank, with its greater and more impersonal sense of responsibility, should bring a new era into the lives of borrowers. Credit would never be scarce; loans would never be—well, it is perhaps going too far to say that loans would never be called. But at least a man would have a better chance, think these worshippers at the shrine of governmental infallibility. At any rate things could not be worse, so any change should be for the better.

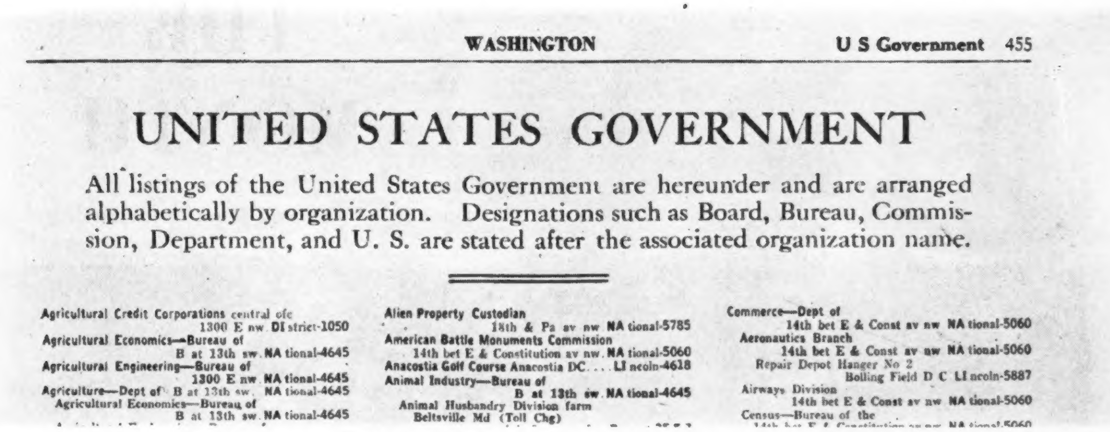
That is a familiar argument to the chronic standpatter who always hears it when nerves are frazzled and tempers made raw through protracted adversity. The standpatter, however, has a few opinions of his own. Depending on the vigor and fervor of his vocabulary, nationalization of banking is a fatuous and impractical dream, a turbid effluent of depression's sewer. To the hibernating banker of the ultra-conservative school, spring is the season when the half-baked schemes of winter begin to unfold; to him the beginning of recovery from depression is the time when the impractical and theoretical machinations of a more desperate plight begin to unravel.

The advocates of nationalization hold otherwise. To them it is far from impractical. Here are samples of their supporting arguments.

**. . . there would be no more arrogant monopoly than that of a public financial institution which did not have to earn favor in order to hold business.—The Author**

Since there would be only one bank, there would be no destructive and expensive competition, the cost of which is always borne by the bank patron. There would be no duplication of service, no profit—as with the Post Office—no private favoritism in granting credit to the elect and denying it to those with no place in the sun. Government ownership would amount to Government guaranty of deposits. Hoarding would be at an end. There would be no failures because the Government could not fail. If greed for profit were the cause of most of the troubles of the private banker, the Government would avoid his type of calamity because it would not seek profits.

There would be no currency shortage. The Government would pay depositors in paper money, a first lien on all the assets of the bank, as in Canada. The printing presses need not stop so long as any assets—or liabilities—are left. Then besides, since far more goods are exchanged through the medium of deposit currency rather than actual mon-


WASHINGTON U S Government 455

# UNITED STATES GOVERNMENT

All listings of the United States Government are hereunder and are arranged alphabetically by organization. Designations such as Board, Bureau, Commission, Department, and U. S. are stated after the associated organization name.

**Agricultural Credit Corporations** central ofc 1300 E nw. **DI** strict-1050
**Agricultural Economics—Bureau of** B at 13th sw. **NA** tional-4645
**Agricultural Engineering—Bureau of** 1300 E nw. **NA** tional-4645
**Agriculture—Dept of** B at 13th sw. **NA** tional-4645
**Agricultural Economics—Bureau of** B at 13th sw. **NA** tional-4645

**Alien Property Custodian** 18th & Pa av nw. **NA** tional-5785
**American Battle Monuments Commission** 14th bet E & Constitution av nw. **NA** tional-5060
**Anacostia Golf Course** Anacostia DC.... **LI** ncoln-4618
**Animal Industry—Bureau of** B at 13th sw. **NA** tional-4645
Animal Husbandry Division farm Beltsville Md (Toll Chg)

**Commerce—Dept of** 14th bet E & Const av nw **NA** tional-5060
**Aeronautics Branch** 14th bet E & Const av nw **NA** tional-5060
Repair Depot Hanger No 2 Bolling Field D C **LI** ncoln-5887
**Airways Division** 14th bet E & Const av nw **NA** tional-5060
**Census—Bureau of the**

**Top of the first page of the Government list in the Washington 'phone book. There are over 600 U. S. Government numbers**

ey, it would be proper for the Government to take full charge of both varieties of currency issuance instead of one, monetary currency. This it would accomplish through its ownership and control of all commercial or trade banking, the indigenous foundation of the currency issuing function.

There would also be no need for the Federal Reserve System. There would be just one big bank with branches. It would make no difference to the bank where you carried your deposit. The bank would not suffer if every last depositor in Chicago withdrew his balance and moved it to St. Louis. There would be no moving of actual funds; mere bookkeeping entries would complete the transfer. The Chicago bank would still keep open. Business would not be prostrate because of bank failure.

In the matter of loans. Theoretically there would be no shortage of credit, no denial for the purpose of bolstering reserves, no room for prejudice; applicants would all be equal in the eyes of the law. Credit would be extended fairly on standard lines firmly and plainly prescribed by Governmental regulation. All the borrower would have to have would be authenticated security of the type prescribed; all he would have to do would be to show beyond peradventure how he could repay the credit. The question of loss possibility would not enter because there would be no question of judgment; rules would take the place of reason, formulae of sentiment, formality of negotiation. Salesmanship, personality, character, all potent influences on human behavior, would be of little effect. Robotism is much more stable and dependable, and therefore to be preferred.

But—in the language of the street—we are jumping the gun a bit. There are yet other arguments in favor of nationalization. The great depression we are now enduring and its banking debacle were caused, speaking of things on the surface, by the collapse of prices. Go back over the last four seamy years and we find that in about the middle of 1929 prices began to break. Debt and ability to repay debt became progressively more disproportionate. Farmer Smith raised wheat on borrowed money at a cost of 75 cents a bushel. He sold it for 25 cents a bushel. Farmer Smith suspended; so did his bank. Frightened, his banker's bank began to collect its customers' loans and replace them with Government obligations. After a while its imitative patrons did the same thing. If they did not buy bonds, they bought real money—and put it away. The motive of all became fear, fear for one's safety. It took the place of greed for profit. No one saw profit in anything. "Only an imbecile would borrow money nowadays." The goldfish began to eat its own tail.

**The basis of reasoning behind the proposal to nationalize banking is largely found in the magic of the word *"Government"***

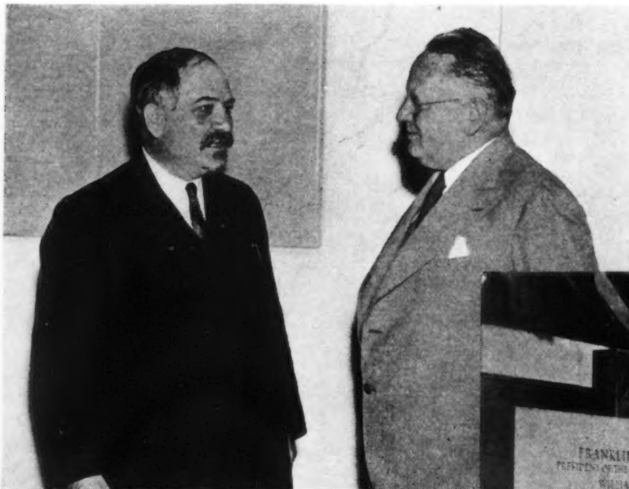
What better universal joint or shock absorber against too wide price variation than the Government? The embodiment of the common will, it is all-powerful even if it is a fluctuating political, rather than a stable economic, institution. Even though many have little confidence in local governments and in Congress, the nation seems to have an abiding faith in the infallibility of what we know as our abstract Federal Government as distinguished from its temporary office holders. Let the Government maintain the price level and all will be well.

We know better than that, however. The sad history of the Federal Farm Board's effort to stabilize the price of wheat and cotton is too fresh in our minds; nor do we forget Brazil's coffee experiment or England's rubber fiasco. Skeletons abound along the trail.

But, the speakers for the affirmative assert, those were efforts in the field of merchandising, not of banking. The commodities were bought outright. The horse had already been stolen when the door of the stable was locked. The Government banking process, on the other hand, would have been to steady and control production, in advance of its abuse, by the stimulating or depressing influence of credit. If not enough wheat were raised, finance Farmer Smith a little more liberally. If he became too ambitious and wished to plant a whole county, hold him down. Simple enough, is it not?

Heretofore our private bankers have done that a bit themselves. But they did not coordinate their efforts, allege the supporters of nationalization. Not a banker could tell just how much other bankers had (CONTINUED ON PAGE 48)

# THE MONTH



GLOBE

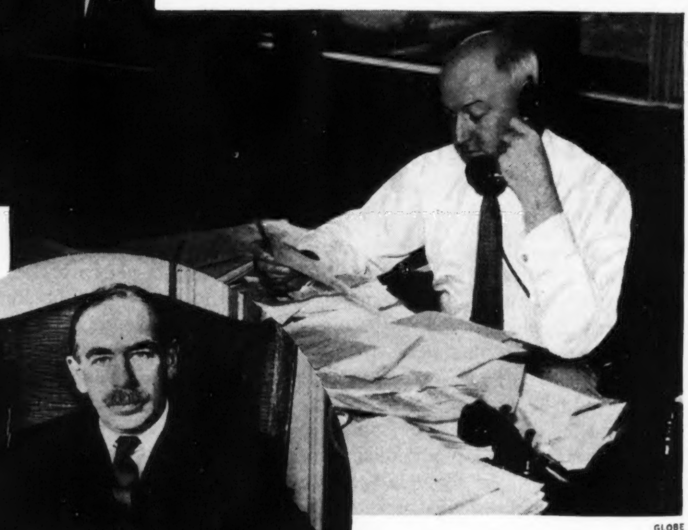
**Russia—Maxim Litvinov, Russian Commissar for Foreign Affairs, shown above at the right, gained as much at London as anyone, if not more. He engineered non-aggression pacts with Russia's neighbors and, most important, skillfully paved the way for United States recognition of the Soviet**


GLOBE

**Public Works—Assistant Secretary of the Treasury Robert lays the cornerstone of the new Government heating plant in Washington. To settle a dispute in his Cabinet, President Roosevelt has declared himself for spending the entire $3,300,000,000 for public works**

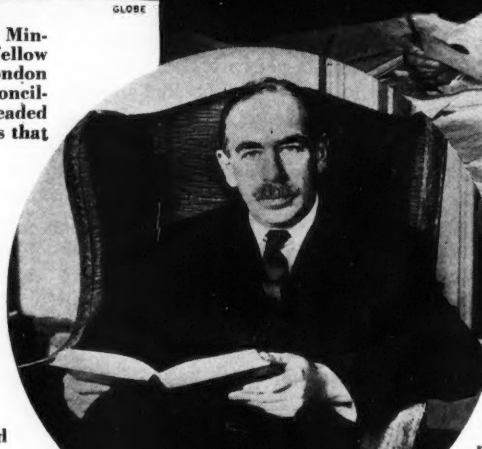
GLOBE

**Gold—M. Bonnet, French Finance Minister, gesturing his opinion to fellow French delegates in the deserted London Conference hall. It was the irreconcilable views of the "gold bloc", headed by France, and of the United States that wrecked the London Conference**



GLOBE

**Jobs—Postmaster General James A. Farley believes that the President's ruling placing all postmasters under Civil Service will make his patronage dispensing easier. The new ruling of President Roosevelt still allows expression of political gratitude**



ACME

**Managed Currency—John Maynard Keynes, British economist, whose doctrines, that human beings can "manage" currency and maintain a price level, seem to have triumphed in the viewpoint now popular in Washington**

# EDITORIALS

## Banking Competition

ONE of the main objectives of the Federal Government in its recovery program, is the elimination of knock-down, drag-out competition in industry.

President Roosevelt and his advisers are acting on the assumption that producers must be assured a profit before prosperity can be restored on anything like a firm basis.

The banking field, more than any other, requires such action, because a strong banking system is essential to healthy industrial growth. Fortunately the machinery for cooperation among banks already exists in the various clearinghouse associations, the state banking associations and in the American Bankers Association.

Long before it became the stated policy of the Government at Washington to discourage frantic, desperate competition between producers of salable goods, the American Bankers Association was urging the organization of clearinghouse associations for the purpose of preventing harmful competitive practices.

### PUBLIC BENEFITS

IN every locality where banks have succeeded in overcoming obstacles and have agreed on a fair code, the public has been the chief beneficiary.

There are two excellent reasons why banks should act without delay to organize clearinghouse associations where such organizations are not already in existence. In the first place such action fits the spirit of the National Recovery program and is essential to the operation of the new bank act; and, secondly, bankers have learned the lesson of non-cooperation from bitter experience.

There is no other way—no better way, at least—to assure a sound, profitable banking system than by united action.

## The Top

ALMOST all of the economic doctrines in the ascendency at present seem to spring from the sophomoric belief that western civilization has reached the top. From now on, according to the leading planners, we are through with climbing and improving. The future is a plateau.

Implicit in almost all projects of economic planning is the assumption that our job from now on will be to hold what we have and consolidate our position.

Restrict production and raise prices—these are the cornerstone of the economics in current fashion. A few months ago it was lower tariffs, cancelled debts and revived foreign trade.

A few months hence it will probably be discovered that you cannot increase a nation's wealth by restricting the production of wealth merely for the purpose of cheapening the currency.

### TURN THE FORMULA OVER

ONE delightful quality of the present craze for blackboard economics is that many of the formulas look just as well if you turn them upside down. For instance, if, instead of restricting production and raising prices, we doubled, trebled and multiplied production as many times as possible with modern mechanical methods, the argument would be equally effective.

There would be more and more automobiles, more clothing, more food, more of everything that we need for raising the standard of living. Men who are now forced to get along on one or two suits could afford five or six, and persons debating whether or not to buy a new automobile, would bring home three or four.

The reason this would not work, say the economists now holding the floor, is that production would outrun demand, or that production would out-run purchasing power. The fact of the matter, of course, is that there is no limit to demand; and as for purchasing power, it is hard to understand just how this will be increased by raising the price level.

## Inflation Necessary?

BETWEEN February and June, according to studies of Federal Reserve experts, prices of six staple raw materials important in international trade rose 60 per cent in this country, 30 per cent in Great Britain and a corresponding degree in other countries. This rise in price was due to no interference with the currency or to no artificial stimulus. The volume of currency in circulation between March 1 and July 1 actually decreased by over a billion dollars. Nor was there inflation or stimulus in any other respect.

The actual direct effect of an inflation policy has been very small. There is abundant reason to believe that this price advance could continue without inflation. Insofar as it does, the use of inflation or devaluation by the Government not only becomes unnecessary but also more dangerous. Inflation measures are always dangerous. Coupled with a naturally rising market they can easily run away with the whole financial situation.

# By Appointment

## NIRA RFC AAA CCC

## HOLC TVA FERA FCT PWA

**Washington knows the cogs in the New Machinery by their initials. Those above refer, in order, to the National Industrial Recovery Administration, Reconstruction Finance Corporation, Agricultural Adjustment Administration, Civilian Conservation Corps, Home Owners' Loan Corporation, Tennessee Valley Authority, Federal Emergency Relief Administration, Federal Coordinator of Transportation and Public Works Administration**

PROBABLY it will be well into the autumn before the new agencies created by Congress, which are to dominate the Government in Washington and affect the value of every loan and investment in the United States for an indefinite period, really get their stride. Taking the Agricultural Adjustment, the Industries Control, the Emergency Public Works or the Farm Credit Acts separately, the task of organization and adjustment would have been great. Taking all of them together the task is tremendous and the results to date more or less baffling.

The heterogeneous hodgepodge of administrators, governors, commissions, commissioners, committees, boards, advisors, field agents and other officialdom is impressive—a large proportion appointed for political reasons. It is hardly to be expected that this great mass formation of new ideas and new administration can be set in motion without confusion and lost effort or without a certain amount of misgiving on the part of conservative citizenship, including particularly banks and bankers.

Let it be understood, however, that for the most part these new dominant personalities in Washington know what ends they have in view and, with abundant energy and press agency, are on their way whether it be the true way or not.

Over the whole recovery program organization the President has established one super-authority, an enlarged cabinet. It is called the "Executive Council" and includes all members of the Cabinet, the administrators of all the several administrative agencies in the recovery organization and such related agencies as the Relief Administration, the Tennessee Valley Authority, the Railway Coordinator's office and the Civil Conservation Corps. This Executive Council has an executive secretary in the person of Frank C. Walker, treasurer of the Democratic National Committee, long a friend of the President, lawyer and business man of Montana and New York. According to his own idea Mr. Walker is to be the "goat". Euphemistically he is the "coordinator" of the recovery administration. Practically he is an Assistant President in charge of the program. He will iron out differences between various authorities, tell each Administrator where his administration gets off, prevent duplication of work and expense—in short, he will run the show. Those who know him well say he is capable of doing just that very thing. In actual power and authority in the Government for the next year or two he is next only to the President of the United States.

The first impact in the practical application of this new legislation to the business world has come in the imposition of a processing tax on wheat as a part of the administration of the Agricultural Adjustment Act, which is the official designation of the domestic allotment plan for aiding agriculture. This ought to indicate that the administration of this Act is fully formed and equipped, ready for business. As a matter of fact it is not. Less than a dozen guns of the $100,000,000 administrative battery are in position but the battle has commenced.

The organization of the Agricultural Adjustment Administration, familiarly known as the "A. A. A.", is more of a family than a hierarchy. The chief, of course, is Henry A. Wallace, Secretary of Agriculture, but the active head is George N. Peek of Moline, Illinois, designated as "Chief Administrator". Associated with him at the head of the table is Charles J. Brand as "Co-administrator". It is rather uncertain whether the "co" means "assistant" or "equal".

In general it seems that Mr. Peek looks after the administration's broader interests in its relations to the public on the one hand and the farmers on the other, while Mr. Brand does the desk work. Mr. Peek is rather too well known in agricultural-governmental relations to require any introduction. He has manufactured agricultural implements for many years and has run a farm on the side; withal he has been prominent in farm relief work since 1921 when, associated with General Hugh S. Johnson of the Industrial Control Administration, he wrote a book on the subject.

Mr. Brand is an economist from Minnesota, by way of the Department of Agriculture, wherein he has been head of the Marketing Division, later expanded into the Bureau of Agricultural Economics. He has also served the Department as marketing specialist. At times he has been associated with fruit growing and fertilizing business interests.

Next to these two administrators comes what may be called the household staff. There is a special assistant to the Administrator. He is Glenn McHugh, who was born in Wisconsin and practiced law in New York City, indicated as a specialist in farm legal matters. There is a general counsel. He is Jerome W. Frank, a Chicago lawyer. There is a publicity man, Alfred D. Stedman, able and affable Washington correspondent of the St. Paul *Pioneer Press*. A (CONTINUED ON PAGE 44)

By E. C. HARWOOD

# A Closer View of Canada's Large Banks

EVERYONE is familiar with the major difference between the Canadian and American banking systems, namely, countrywide branch banking by only 11 institutions in Canada in contrast with the thousands of unit banks in this country. There has been a tendency to jump to conclusions and seize upon this most obvious difference between the two systems as the feature which is responsible for the better failure-record of the Canadian banks. It must be remembered, however, that it is not always the most prominent and obvious difference in method which accounts for varying results.

This discussion is devoted to comparisons between the especially significant items of the respective balance sheets from 1914 to date.

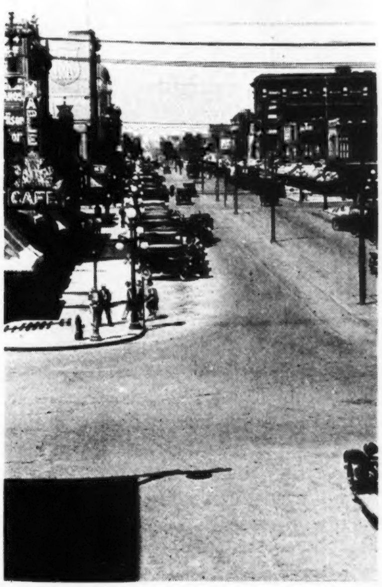
The assets and liabilities of the banking systems have been subdivided into items which are comparable. Probably the most satisfactory way of presenting the information will be to discuss each of these items in turn, pointing out, in each case, of what it consists, and comparing the United States data with the corresponding Canadian figures.

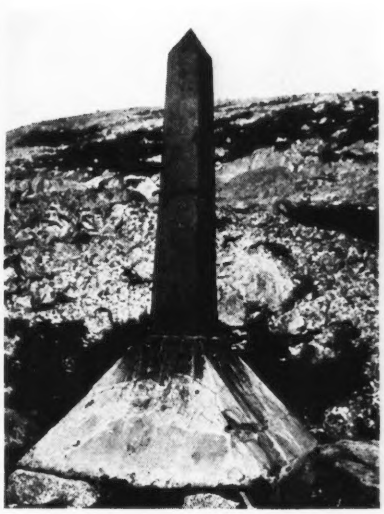
We will deal first with significant items among the assets.

**Investments in securities.** In the first place, the Canadian war financing began to involve acquirement of government bonds by the banking system on a large scale early in 1916. The trend was very sharply upward during the next four years, and during a large portion of that time bonds were acquired at an even more rapid rate than the Liberty Bonds were absorbed by banks in the United States. The national banks, and in fact all banks of the United States, acquired Government bonds on a tremendous scale, beginning in 1917. It is noteworthy, as shown on Chart 1, that the Canadian banks began to unload their securities immediately after the Armistice, whereas American banks continued their purchases for a few months. Canadian banks, however, subsequently reversed their policy, and late in 1919 their holdings reached a new high record after the security holdings of the American banks had be-

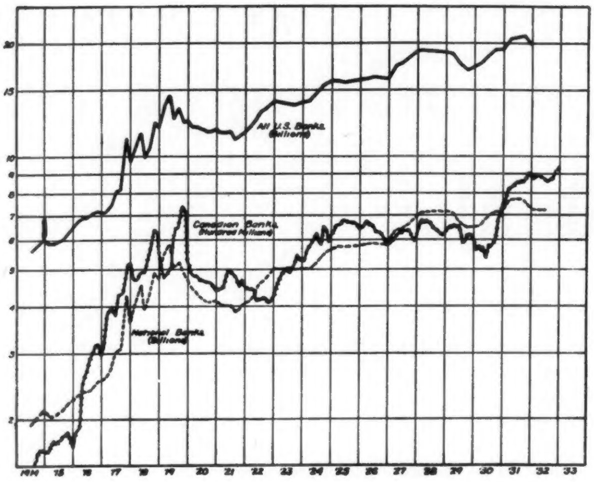
**Mr. Harwood is a member of the faculty of Massachusetts Institute of Technology**

**Visitors from abroad have often commented on the great similarity between towns in the United States and in Canada, and on the similarity in appearance of citizens of the two neighboring countries. At the left is the main street of Moose Jaw, Saskatchewan, and at the right a street in Cheyenne, Wyoming. Below is one of the many markers along the miles of unfortified frontier between the two territories**



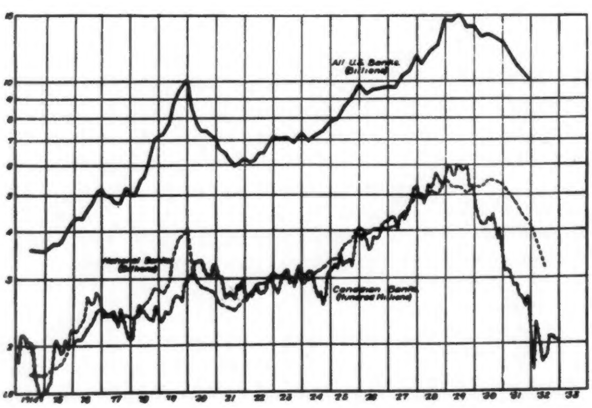
EWING GALLOWAY PHOTOS




Investments in securities, including Government bonds, bonds of railroads and utility companies, loans to municipalities, etc.

**Chart 1.**

**Investments**




Loans on securities, as shown in the above chart, include all loans secured by stocks and bonds. In the case of the Federal Reserve banks, included in all United States figures, these securities are United States Government bonds only

**Chart 2.**

**Commercial Loans**

The chart below is one answer to the claim often made that banking difficulties in the United States are due to too little capital and surplus

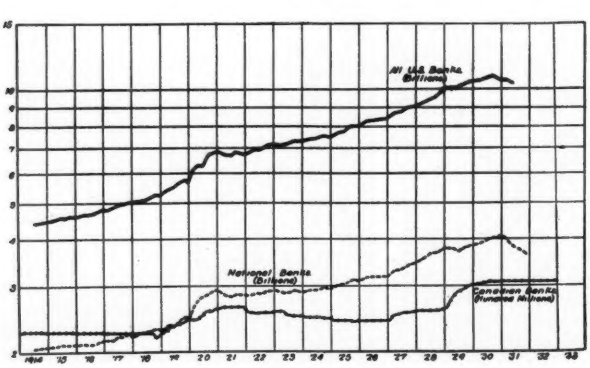



**Chart 3.**

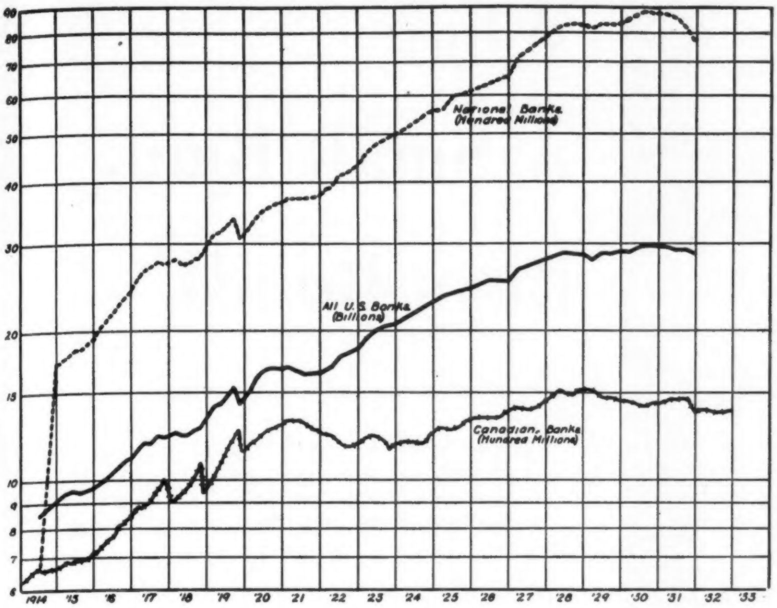
**Capital and Surplus**

gun to decline. The liquidation of security holdings was comparable in the case of both banking systems, but the low in the case of the Canadian banks was more than a year later than the low point for such holdings by American banks. For the American banking system there was a nearly uniform upward trend of security holdings from 1922 to 1928. Canadian banks, on the other hand, although they increased their holdings of securities during 1923 and 1924, actually reduced them again beginning in 1925. From that time on, therefore, while the trend in the United States was still upward, the security holdings of Canadian banks trended downward. As for the percentage of total assets, the trend in the case of the Canadian banks was sharply downward after 1925 in contrast with the trend in the case of United States banks.

### ONE MAIN DIFFERENCE

**Other real estate plus loans on real estate.** Canadian institutions are not permitted to make loans secured by real estate. This is a most important difference between the Canadian and the United States systems as a whole. It is of even greater importance with respect to the national banks in this country, because they are our principal commercial institutions. Although loans on real estate are only about 8 per cent of total assets even today in the case of the national banks, the trend has been sharply upward since they were first permitted to make such loans. To the extent that loans on real estate are an element of weakness in a commercial banking system, it is plain that the Canadian banks are in a much superior position to our national banks.

**Loans on securities,** including all loans secured by stocks and bonds. In the case of the Federal Reserve banks (included in all United States figures), the securities involved are United States bonds only, but in the case of the other banks in this country and in Canada there are securities representing all kinds of businesses behind such loans. These data are shown in Chart 2. It is interesting to observe that during 1919 there was a marked tendency for the Canadian banks to lag the trend observable in the case of the national banks in this country. It is possible that this reflects a more cautious attitude on their part. In any event, it is quite clear that the liquidation of such loans was a much smaller percentage in the case of the Canadian banks. From 1922 to 1929




## Chart 4.

**Time Deposits**

**Time deposits, in the case of the United States, include postal savings deposits**

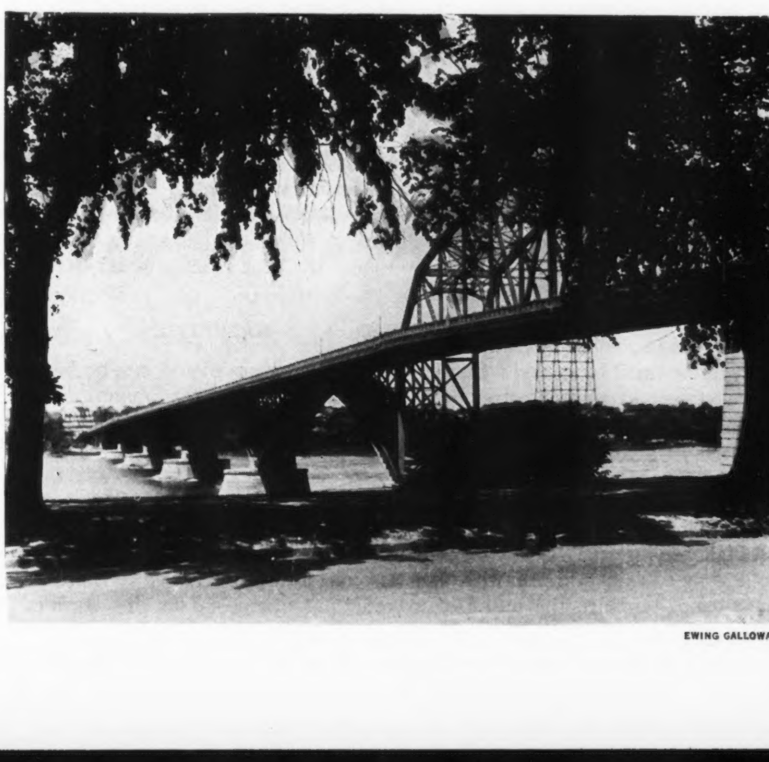
loans on securities by the Canadian banks and by the national banks of this country closely parallelled each other. The Canadian banks, however, liquidated their loans of this character much more rapidly following the panic of 1929 than did the national banks in this country. The liquidation also amounted to a great deal more, in percentage, than was the case in all United States banks taken together. For example, early in 1933 we find the loans on securities by Canadian banks have been reduced to one-third of the 1929 total, whereas the corresponding item for the national banks shows a reduction of approximately 50 per cent.

**Other loans, discounts, and overdrafts,** including all secured and unsecured loans made by the respective banking systems not previously mentioned. The major portion of these are based on straight commercial transactions. Perhaps the most noticeable differences in the case of this item are, first, the gradual liquidation of such credit extensions from 1920 to 1925 for the Canadian system as contrasted with the sharp downward trend for the national banks during 1921 and part of 1922, and, second, that the trend for the Canadian banks was sharply upward from 1925 through 1929 whereas the United States banks' corresponding item moved horizontally, and during the later part of the period declined slightly.

Although the trend of all earning assets was approximately the same in the United States and in Canada, investment type assets in the case of the Canadian banking system were not accumulated as rapidly after 1925 as was the case in the United States banks. On the other hand, the commercial loans of the Canadian system increased much more rapidly than the corresponding item for the United States banks. It is plainly evident, therefore, that the liquidity of earning assets in the case of the former banking system was much better. In view of the controversy which hinges more or less upon the definition given to liquidity, it may be advisable to say that the self-liquidating proportion of earning assets in the case of the Canadian system increased rapidly while the proportion of such loans in the case of the United States banking system was declining.

We turn now to the liability items which are important for this discussion.

**Capital, surplus and undivided profits.** In view of the suggestion which has been made by various writers that bank failures in this country have been due to insufficient capital and surplus this item is of especial interest. The data are presented in Chart 3. It is obvious that the Canadian banks, taken as a whole, have not been increasing their capital and surplus as rapidly as have banks in the United States in total dollar amounts. It is also clear that this item for the Canadian banks has been a smaller proportion of total liabilities. During (CONTINUED ON PAGE 62)



**The great international Peace Bridge, crossing from the United States to Canada at Buffalo, New York**

EWING GALLOWAY

Reserve—Not Investment
Five Years
Market Price
4 Per Cent
Type of Deposits
Half in Governments
Diversify Maturities
Facts
Quality
Reserve for Losses

# When A Small Bank Buys Bonds

By J. HARRIS WARD

Vice-president of the Westport Avenue Bank, Kansas City, Mo.

A MANUAL for bond purchases by small banks is not easily constructed, but the observation and application of certain fundamental principles will help to minimize the possibilities of losses—and perhaps of profits as well.

The principles to be suggested in this discussion may be criticized on the grounds that they eliminate all opportunities of good profits, and that they attempt to reduce the handling of the bond account to a semi-automatic basis. In reply I can only ask each country banker to calculate what net return he has received on bonds over the past decade. If, after considering his losses, he finds that he has averaged over 4 per cent a year on his invested principal, he is to be congratulated. I suggest a careful consideration of the conservative course now to be outlined.

A small bank should have no investment account; that is, it should buy no bonds beyond the needs of its secondary reserve. It is impossible to maintain an expert in the small bank, and a successful investment or trading account demands the full time of a capable man. Furthermore, the average small bank can obtain a yield of 6 per cent on customers' notes with greater relative safety than it can in bond investments.

A high yield in bonds usually requires the holding of long-term securities, and any attempt to weigh the future of a corporation 10 or 20 years hence is nothing more than a guess at best. It may be argued that a bank which buys no long-term bonds has no opportunity to benefit through the successful forecasting of interest rates. But what small banker has the time or the training to carry out such manipulation with enough success to make it worth his while?

Finally, it might be argued that the elimination of the investment account of the small bank would result in distorted proportions among the other assets. Yet, there is really no reason why the average bank should not be able to place 60 per cent of its deposits in sound local notes. With a primary reserve of 15 per cent or 20 per cent, and a secondary reserve of about 35 per cent—this proportion would of course vary in different banks and at different times—the bank's funds would be well distributed.

### MATURITIES

THE small bank should buy no bonds of longer than five-year maturities. If sales are necessary, a ready market for high grade short-term securities usually exists; but even more satisfactory than a ready market is the liquidity of maturity, and here is one of the chief advantages of the short-term bond over the long-term bond. A well arranged account has a perpetual line of maturities.

Furthermore, a change in interest rates, which might alter the price of a long-term bond by as much as 10 points, would have very small effect on a short-term security. The performance of long- and short-term bonds in times of stress is too well known to require extensive comment. If they are of the same high quality, the bond of the shorter maturity will hold its price much better.

The small bank should regard the market as its statistical department. The price of a bond indicates the composite opinion of a great many investors, and a price change usually anticipates news. If the market price of a bond maturing in less than five years falls below 90, the banker will probably do well to sell it. He should certainly investigate it very carefully. If the yield on the basis of the market price of one of his short-term bonds gets out of line with that of other high grade short-terms, the security should be studied carefully. Something is probably wrong and the market usually finds out about it before he does. To handle a bond account properly, markets must be checked regularly.

The small bank should regard its bonds first as a secondary reserve, and secondly as an earning asset. On the program outlined here the banker will do well to earn 4 per cent on his total bond account, including his Governments. There may be times when high rates will (CONTINUED ON PAGE 62)

FAIRCHILD AERIAL SURVEYS, INC.

**A recent airview of Chicago, looking north along the Lake and showing the Stevens Hotel, Convention Headquarters, circled in white in the foreground**

# Events and Information

## 59th Annual Convention, Chicago, September 4-7

FOR the second time in a decade, and the sixth since the organization of the American Bankers Association in 1875, the bankers of the country will assemble in Chicago for their Annual Convention on Labor Day—September 4.

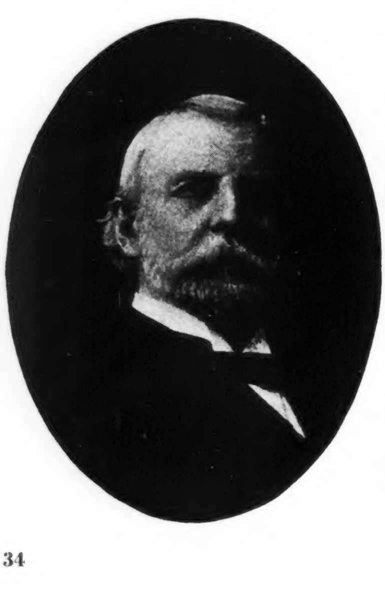
Important though the banking history has been which has been recorded at these earlier Chicago Conventions, it is certain that never before in the 59 years' existence of the American Bankers Association have there been weightier reasons for bringing bankers together from every corner of the country to formulate plans for meeting the unprecedented complications arising out of the depression, and for lending the most intelligent and effective cooperation to the Government in its efforts to restore prosperity.

Legislation, present and prospective, will unquestionably dominate the thinking of every delegate and will afford the main foundation of discussions between individual bankers as well as the general sessions of the Convention. Congress will again devote much consideration to banking laws at its next session, to convene early in January, and delegates to the Convention will have an exceptional opportunity to clarify thinking on this subject.

Governor Black of the Federal Reserve Board will be one of the principal speakers. Every banker in the country will look forward to his talk for enlightenment as to the uses which the Board will make of the 20 or more additional powers conferred upon it by the new Banking Act, and particularly its procedure in the matter of interest payments on time deposits.

Another speaker whose address will be awaited with extraordinary interest will be the newly appointed Comptroller of the Currency, James F. T. O'Connor, who may be depended upon to clarify the policies of his department in its relations with national banks.

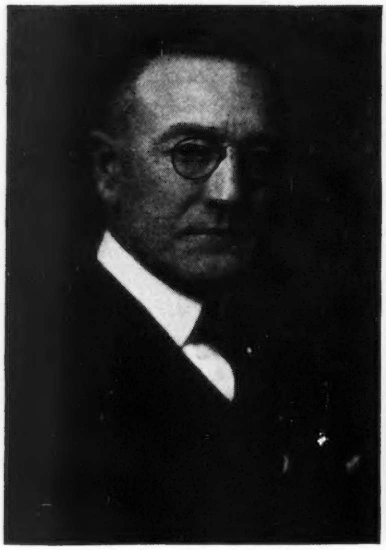
More than a score of other speakers, eminent in public affairs, in finance and economics, will address the Convention and the Division Sessions, each contributing (CONTINUED ON PAGE 36)



**LYMAN J. GAGE, 1883-85**

**JOHN J. P. ODELL, 1894**

**On this page and on Page 36 are shown the six Chicago bankers who have headed the Association, with the dates of their terms. Arthur Reynolds, on Page 36, was president of the Des Moines National Bank at the time of his Association Presidency in 1913**



ARTHUR REYNOLDS, 1913

GEORGE M. REYNOLDS, 1908

to the fund of new and essential information on matters of paramount interest to be taken back to their banks by the attending delegates.

Every banker realizes that his business is in the process of rapid and complete remaking. Unreasoning public opinion has made the banker the scapegoat for all the ills and evils of the post-war decade. Onerous deposit guaranty measures, discredited in every state where they have been tested out, are now incorporated in the nation's banking law. Correspondent relationships of generations' standing must now be recast. The effects of changed laws upon bank officer-director relations, on investment procedure, on dealings with depositors in matters of interest payments, all must be determined in the next few months, while the critical problem of public relations demands urgent attention.

These are all problems that demand *united* attention. No individual banker, no local group, no sectional body, however intelligent and forceful its action may be, can cope with forces national and even international in their aspects. The 59th Annual Convention of the American Bankers Association affords a needed opportunity for the formulation of a nationwide plan of procedure, calculated to meet existing conditions and to make preparation for future contingencies. There is no bank, large or small, without its vital stake in the development of a sound program, and its participation in the proceedings of the Convention will be of far-reaching benefit, both to itself and to banking in its entirety.

The Stevens Hotel will be Convention Headquarters. Its central location brings within equally convenient reach the financial district and the Fair grounds. Because of the exigencies of the situation, this will be a business Convention, with a minimum of entertainment and a maximum of attention to banking problems, but there will be ample opportunity for visits to the Century of Progress and the many other attractions for which Chicago is famous.

Low cost transportation to the 59th Annual Convention offers an unusual opportunity to attend the convention and at the same time visit the Century of Progress Exposition. Railroad transportation has never been more economical.

A form of ticket at greatly reduced railroad and Pullman fare, known as "Century of Progress Exposition ticket", is on sale at all stations. This mode of transportation will meet the requirements of practically all members and effect the greatest savings in transportation costs. However, in a limited territory east of Chicago there are certain restrictions placed on "Century of Progress Exposition tickets". To take care of this situation, reduced railroad rates, equivalent to fare and one-third for the round trip, have been authorized on the Convention "Identification Certificate Plan". Interested members, in territories where it might be inconvenient to use "Century of Progress Exposition tickets", will be mailed Convention "Identification Certificates" for reduced railroad fares.

In order to secure the most desirable and economical form of transportation, members will find it to their advantage to outline their plans to their local railroad ticket agents and obtain full details as to rates and privileges.

Hotel accommodations should be made now.

## Proposed Amendments

PROPOSED amendments to the Constitution of the American Bankers Association, unanimously approved by the Administrative Committee and Executive Council at Augusta, Georgia, April 10-12, 1933, are recommended to the Con- (CONTINUED ON PAGE 70)

MELVIN A. TRAYLOR, 1926

CRAIG B. HAZLEWOOD, 1928

# A Textile Loan Problem

## Answers to the JOURNAL'S July Forum

### Engineering Advice

I. THE best interests of the bank's depositors, stockholders and the community are identical and dependent entirely upon the survival of Farragut Woolen Mills.

It must be recognized that a concern that has been controlled by one family for three generations contains much dead timber. Therefore, the banks must cooperate to reestablish the mills.

The banks should insist that the owners of the mills temporarily vest the management of their business in the most competent firm of business engineers obtainable, to redesign lines to conform to modern demand, to reprice products to meet competition, to reorganize manufacturing methods in order to eliminate waste and duplication, to stimulate the sales organization and train it to take advantage of the prestige already held by the mill's products.

All efforts must be concentrated along these lines with the expectation of success over a period of time, disregarding complications of the immediate present.

### Debt Funding

II. WE assume that:
1. Banks have sufficient capital;
2. Mill management is satisfactory;
3. Indebtedness excluding bank loans is moderate.

REORGANIZATION PLAN

Incorporate the mills.
1. Issue $750,000 bonds to fund debt and provide cash. 5 per cent first mortgage bonds redeemable by sinking fund over 20 years.
2. Capital stock.
   a. Owned by mill owners.
   b. Control by planning committee, creditors and the management of the mills.
   c. Dividends, option of committee after half of bonds are retired, interest and sinking fund paid.
3. Operation—committee to formulate policies.
   a. Seek new markets or products.
   b. Operate plant at capacity.
   c. Reorganize for efficiency.
   d. Collect receivables.
   e. Maintain equitable wages.

If our original assumption err we can:
1. Provide new bank capital with preferred stock.
2. Change the management.
3. Alter capital structure to provide for other creditors by increasing bonds or issuing preferred stock.

Some of the home mortgages can be refunded under the new Home Loan plan.

Banks should consolidate for economy, since one seems enough in a town of 7,500.

### Expense Control

III. RECEIVERSHIP should be avoided. The entire community must cooperate to save its principal means of support.

These recommendations are made:

Creditor bankers should formulate a management program to minimize expenses consistent with efficiency, to control additional credit extensions carefully and, if advisable, select an expert as temporary manager. After that, issue $400,000 in preferred stock, which appears justified by past profits, probable value of land and buildings, and long term prospects. Employees should absorb over half, and local interests the remainder. Then reduce all (CONTINUED ON PAGE 54)

### The Authors

**The selections this month are made with the understanding that the opinions expressed by the authors are not necessarily the opinions of the judges.**

**I. Leo G. Titus, American Trust Company, Berkeley, California.**

**II. John L. Turnbull, Jr., Haddon Heights, N. J.**

**III. Taylor Smith, Indianapolis Chapter, American Institute of Banking, Indianapolis, Indiana.**

**IV. J. F. Middleton, First National Bank and Trust Company, Bloomington, Illinois.**

**V. M. M. Horsfield, Bowery Savings Bank, New York, N.Y.**

**VI. Alfred T. Copeland, The City National Bank and Trust Company, Columbus, Ohio.**

**VII. C. W. Britts, Northwestern National Bank, Minneapolis, Minnesota.**

# State Lawmakers Re-examine Trust Laws

(CONTINUED FROM PAGE 18)

ciate together for common investment the funds of individual trusts whether created by order of court or otherwise, if the terms of the trusts do not require a separate investment. For that purpose a trust company may create a trust investment account, to be known as its associated trust investment account, to which may be entrusted for investment the whole or any part of the funds of trusts permissible to be associated as above. An individual trust whose funds are thus associated shall at all times be the equitable owner of its *pro rata* share of the funds of said associated trust investment account, and shall share *pro rata* the net income of said account, and the net increase or decrease of its principal for any reason during the time its funds are a part of said associated trust investment account. The net income shall be distributed *pro rata* to the individual trust accounts at reasonable intervals. Funds of individual trusts transferred to said account or withdrawn therefrom shall be on the basis of the market value of the total funds of said account at the time being."

The same section of the Vermont bill that would permit the association of trust companies for the common investment of trust funds also provides that all trust properties or securities received or held by a trust company shall be kept separate and distinct from its general business and shall not be mingled with the investment of its assets or be liable for its debts and obligations. Indiana requires that every bank or trust company exercising trust powers shall establish and maintain in its office a trust department in which it shall keep separate and apart from its other business separate books and accounts and shall keep all securities and properties, other than money which is held by its trust department, at all times segregated from and unmingled with its own and any other securities and properties or bonds, warrants, notes, mortgages, deeds and other securities of every nature belonging to its trust department shall be kept in separate receptacles, labelled to indicate the trust or the estate of which such securities are a part.

One item of legislation which, while not indicating a trend, is nevertheless worth mentioning is that with regard to the right of a trustee to vote stock by proxy. Trust departments have frequently been in a quandary as to the right, in the absence of express authority, to vote trusteed stock by proxy. The Indiana statute provides that a fiduciary may vote either in person or by proxy and that, unless a longer time is expressly provided therein, no proxy shall be valid 11 months after execution.

The question of the appointment and rights of successor trustees has arisen over and over again in recent years in connection with mergers, consolidations, voluntary dissolutions and conversions of state into national banks. The Indiana statute covers these situations. It provides that, if at the time of liquidation a trust institution shall hold any property in trust under any trust agreement, the department of financial institutions shall convey, assign and deliver such property to the successor trustee named in the trust instrument under which such property is held, or, if no successor trustee be named therein, to such individual or to such bank or trust company qualified to exercise trust powers as may be designated in writing by the beneficiaries of such trust, or, if no such designation is made after written notice to the beneficiaries, or, if the beneficiaries are minors or otherwise incompetent to designate a successor trustee, then to such individual or to such bank or trust company qualified to exercise trust powers as may be appointed by the court having jurisdiction of trusts in the county where the principal office of the trust institution is located. As regards mergers, consolidations, and changes from state to national charters, the Indiana statute provides that the institution resulting from such merger or consolidation or nationalization shall succeed to all the rights, privileges, duties, and obligations of the original fiduciary.

The State of Utah, under its new law, which will become effective January 1, 1934, requires a trust company as a condition precedent to its engaging in trust business to deposit with the state treasurer securities approved by the bank commissioner—$10,000 in a city of 15,000 population or under, $25,000 in a city between 15,000 and 100,000, and $100,000 in a city of 100,000 or over. The respective amounts of capital and surplus so set aside and represented by the property deposited with the state treasurer is treated in all respects as separate capital or capital and surplus of the trust business of such trust company as though such trust business were conducted by a separate and distinct corporation and the capital or capital and surplus so set aside is kept, held, used and disposed of wholly for the exclusive benefit, protection and security of the trust business, and trusts so accepted by a trust company, and the capital or capital and surplus so set aside is the only capital or surplus of such trust company which is subject to liabilities of such trust company incurred in its trust business.

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## Probable Trends in 1935

JUDGING from the turn that trust legislation took in the 1933 sessions, we may expect that in 1935 bills will be offered on the following subjects among others:

1. The further definement and particularization of "legal" trust investments;
2. The points to be covered by and the form of the reports to be made in the examination of trust departments by the state banking authorities;
3. The complete separation of trust properties from those of the trust institution and of other trusts;
4. The commingling of trust funds for investment purposes when expressly authorized to do so;
5. The provision for unbroken administration by successor trustees under mergers, consolidations, liquidations, and nationalizations of trust institutions;
6. The complete protection of uninvested trust funds and the requirement of the investment of trust funds with reasonable dispatch;
7. The capital requirements of trust institutions; and
8. The segregation of a portion of the capital or surplus of a bank engaged in trust business for the exclusive protection of its trust business.

# New Restrictions In Robbery Insurance

EARLY in July the National Bureau of Casualty and Surety Underwriters notified its member companies that the following plan of restricting robbery insurance would become effective July 15 on bank robbery insurance in rate territories 3 and 4:

(1) Bank Robbery Policies on banks located in bank robbery rate territories 3 and 4 shall carry the following standard endorsement:

It is hereby agreed that the Company's liability for loss of money as insured under Paragraph II of the Policy of which this endorsement forms a part is limited to *$(15 percentum)* of the amount of insurance applicable under said Paragraph II as specified in Section (i) of Condition R of said Policy, if loss thereof is occasioned by robbery as defined in the Policy, when such property is located within the Assured's premises but not within a vault, safe, chest or similar receptacle locked by time lock at the beginning of such robbery, provided that the foregoing limitation shall not apply to such a loss:

(a) occurring at any time when at least two employees or guards equipped with loaded firearms are stationed at each unlocked entrance door to the premises;

(b) of money unexpectedly received if placed within a vault, safe, chest or similar receptacle locked by *combination* lock not later than fifteen minutes subsequent to the receipt thereof and which money at the first opportunity shall be placed under the protection of a *time* lock or protected as required by subdivision (a) of this endorsement.

This endorsement is hereby agreed to and accepted by:

____________ (Assured) ____________ Company

By____________ By____________

(2) The plan shall apply to all outstanding, new and renewal bank robbery policies written to banks located in bank robbery rate territories 3 and 4 as of July 15, 1933, excluding:

(a) Policies under which no insurance is granted under Section (i) of Condition R.

(b) Banks in towns of 25,000 population or more and having a working force of not less than five persons.

(c) Banks having robbery tear gas systems certificated by Underwriters Laboratories.

(d) Banks having approved bandit resisting enclosures certificated by Underwriters Laboratories.

(e) Policies written as "excess" over blanket bonds or all-risk policies which are in the amount of at least $10,000, and policies carrying the $10,000 deductible endorsement.

(3) Where it is desired to extend insurance under the policy to cover over and above the 15 per cent limitation on money, such extended insurance may be granted for an additional premium of 100 per cent.

The National Bureau's member companies underwrite more than 95 per cent of bank robbery insurance in the United States, and their rate territories 3 and 4 consist of the following states:

Territory 3: Alabama, Arizona, California, Idaho, Louisiana, Mississippi, Montana, New Mexico and Tennessee.

Territory 4: Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota and Wisconsin.

Under the above plan, restricted coverage applies only to daylight robbery or "holdup" loss of money and not securities. Also, the restrictions are not applicable to the various forms of bankers blanket bonds and, of course, have no bearing on the robbery insurance carried by banks in the remaining 25 states and the District of Columbia.

The casualty underwriters report that bank robberies in the states of territories 3 and 4 have developed increasingly higher loss ratios in comparison with premium revenue, despite several increases in rates given effect in recent years. A review of the underwriters' experience with bank robbery insurance in the above states during the policy years 1927 to 1931, inclusive, revealed that about 60 per cent of the amount of insured bank robbery losses occurred in towns of less than 5,000 population and about 86 per cent of insured robbery losses were incurred by banks in towns of less than 25,000 population. Accordingly, the underwriters believe that these restrictions and particularly the preventive measures contemplated under this plan may prove ineffective unless they are applied in towns of less than 25,000 population.

The underwriters' tabulation of their 1932 experience with bank robbery insurance in these 23 states indicates that the loss ratio is higher than reported in 1931 and the preceding years. The National Bureau, therefore, advises that "the companies are of the opinion that an emergency exists which must be met immediately if the insurance companies are to continue to write bank robbery insurance in rate territories 3 and 4. Accordingly, the companies feel that this plan must be put into operation at the earliest possible date."

In its original form, the plan was intended to apply only to banks located in towns of less than 5,000 population. But on June 9 the underwriters decided, for reasons outlined above, to extend the plan to apply to a greater number of banks; namely, those in towns of less than 25,000 population. The plan encourages a wider use of stronger preventive measures within the banks, but in extending the plan to include banks in the larger towns and cities, it may lose much of its influence toward popularizing the advantages of prevention. In these larger towns and cities, many banks now carrying burglary and robbery policies as "primary" insurance may be attracted to blanket bonds, the premium rates for which make no allowance for approved protective equipment designed to prevent robbery loss.

In its discussions of the plan with the underwriters, our Insurance Committee also emphasized the objections against terms of the endorsement:

1. Barring the exceptional circumstance, such as cases where the criminal finds it possible to rob the assured bank of money by waiting for time locks to run down, the robbery hazard underwritten is reduced 85 per cent by the endorsement without compensating discount in the premium charged.

2. If the robbers "clocked" their entry to occur when the time lock is undergoing inspection, cleaning or adjustment and before entrance doors could be locked or guarded, the endorsement might deprive the bank of protection against loss of cash in excess of 15 per cent of the amount of insurance.

# Correspondence

EWING GALLOWAY

### A Question Submitted

To the JOURNAL:

I am enclosing a question which I would appreciate having published in your periodical: Why is it that the National Government is determined to put all the banks of the country having a capital of $25,000, or less, out of business?

This writer has been trying for 30 years to build up a small bank in a rural community, and has tried to make his own name synonymous with the word "integrity", and the name of his bank synonymous with "safety".

I believe this is a proper subject to be discussed in the JOURNAL, and that if the small banks are to be kicked out of business, after faithfully serving, not only their own sections, but their Government as well, in the flotation of bonds during War days, they are at least entitled to know why.

O. M. HOOKER.

Cashier,
The Bank of Aurora,
Aurora, North Carolina.

### On Post Office Banks

To the JOURNAL:

The Government should either get into the banking business or get out of it. It has planted a branch bank in the Post Office in every town of any size in the United States. These branch banks were dormant and inactive until the country banks began to feel the pinch of the depression and the effect of low prices. Then, when cash reserves began to fall off, the Government, through its Post Office banks, began to gobble up what cash reserves the country banks did have and take it away to the cities.

The Post Office bank is only half of a bank. It does not loan any money, and it makes it impossible for any one else to loan any. If we must have Post Office banks let us make banks out of them, and loan the money—not hoard it. There never was a time in the last 40 years when the country districts needed money and could use it to good advantage as they could now. It would add new life and start things going in the country. When live stock is sold at farm sales on six months time it sells for twice as much as when sold for cash. Before Post Office banks came into use every farm sale was advertised on six months time.

I repeat, "let the government get into the banking business or get out of it."

H. E. TRADER.

President,
Marceline State Bank,
Marceline, Missouri.

### Another View

To the JOURNAL:

My banker friend allows me to read your JOURNAL. I appreciate this favor. Perhaps I should be a subscriber.

What I want to say is that I think more people should be loaned the JOURNAL. Really some of the articles should have the widest possible reading. They are good for all of us to read, particularly "The Postmasters Bank". I think this Postal Savings plan of the Government is wonderful. It sure keeps the money out of "sox". If you want to get more money into banks induce the United States to do away with the check tax.

A. H. BURG.

Lahoma, Oklahoma.

### A Plea for Facts

To the JOURNAL:

I chanced upon your April announcement of a contest for "New Practical Measures for Increasing Good Will Towards Banks". Of course it is too late, but I should have liked to enter the following as a layman-contestant:

I am an average depositor.

The bank's continuous operation rests on my confidence. Sound opinions must be based on some degree of knowledge. Where shall I get it?

From statements of condition, with names of officials? Imposing personalities in the banking world have been justly exposed for dishonesty, and who but an expert can interpret a statement?

My bank advertises its antiquity, but I suspect many dead banks were too old to stand the modern pace.

Big business men probably use many banking facilities. I don't. I know practically nothing of banking mechanism—yet my money is involved in every transaction.

Tell me how loans are made, what vice-presidents do, what are letters of credit, trade acceptances, living trusts, foreign exchange.

Rumors come unsolicited. Give me the facts of bank organization on which to base my confidence in organized banking. Or give me back my money.

PAUL NATIONS.

276 Chronicle Building,
San Francisco, California.

### Credit Bureaus

To the JOURNAL:

The article "How to Organize a Credit Bureau", appearing in the June, 1933, issue of the JOURNAL, interests me to a point of giving constructive criticism on the subject.

The article points out the value of a bank-credit bureau in safeguarding duplicate borrowing and extension of credit based upon inadequate information. There is no questioning this fact. However, I wonder whether bankers have ever given serious consideration to the value and ability of the merchant-owned credit bureau, not only in safeguarding the losses sustained by duplicate borrowings and the extension of credits because of inadequate information, but the protection they afford in the complete knowledge they are able to develop regarding the borrower's personal habits and reputation, speculative tendencies, credit record and capacity to succeed in his chosen line of endeavor.

Analyzing the relations between banks and credit bureaus, over a period of some 20 years experience in credit reporting activities, has led me to believe that banking institutions maintain an unwarranted lack of confidence and lack of cooperation toward the organized retail credit fraternity.

G. W. MACKENZIE.

President,
California Association
of Retail Credit Bureaus,
Petaluma, California.

### Bank Advertising

To the JOURNAL:

It is obvious that the alert financial institution is not going to sit idly by while its competitors and the reorganized banks in its community go out and get the available business. There is much that is fundamental in bank service which will not conceivably be affected by any legislation, and there are basic human appeals which will remain unchanged.

I. I. SPERLING.

The Cleveland Trust Company,
Cleveland, Ohio.

# By Appointment

(CONTINUED FROM PAGE 28)

press representative is among the first appointments made in these organizations. Theirs is not an easy job. The public must be educated and informed. Associated with Mr. Stedman to some extent is former Governor Theodore G. Bilbo of Mississippi, who has the job of collecting information from newspapers, magazines and other publications. Finally there is former Senator Smith W. Brookhart, of Iowa. He is designated as special advisor to study and foster trade in agricultural products in other countries, with an eye particularly on China and Russia.

### THE DIVISIONS

THIS is the household staff. Under it other members of the family form groups which seem to be more or less equal in station and interlocking in functions. In a broad way the work of administration is divided into three organizations. There is a Division of Trade Agreements headed by Guy C. Shepard of Evanston, Illinois. He hails originally from Iowa, has long been engaged in the meat packing industry with the Cudahy interests, is an old friend of Mr. Peek and his specialty will be the charge of trade agreements in the field of processing and distributing packing house products.

A second division is that of Production, headed by Chester C. Davis of Montana, formerly of Iowa, long prominent in agricultural organizations in the West. He was recently associated with Mr. Peek in a concern interested in the industrial use of corn stalks. With him, as assistant directors in the Production Division, are associated former Representative J. N. Norton of Nebraska, who is the field representative of the Division, and former Representative Victor Christgau of Minnesota, who sponsored a measure in Congress known as the Christgau Bill to effect regional adjustment in agricultural production.

The third general division is that of Processing and Marketing, of which Brigadier General William I. Westervelt is chief. General Westervelt is a West Point man, born in Texas, serving in the Army through the World War and until 1927, when he became research director for Sears, Roebuck and Company. For a time he was Commandant of the Watervliet arsenal in New York. That may or may not indicate his connection with presidential appointments. He has, as executive assistant, Carrol W. Dunning of Portland, Oregon. Mr. Dunning has seen service in the Department of Agriculture, with the Ford Motor Car Company in the development of its farm tractor business, and later with the Department of Commerce in some of its marketing surveys.

Next to these three grand divisions —associated with them is perhaps the better way of putting it—are commodity divisions. In time these will include divisions covering all principal crops within the scope of the allotment law. Cotton is in charge of Cully A. Cobb. Mr. Cobb was born in Tennessee but hails immediately from Georgia. He is the editor of an agricultural publication and has long been associated with agricultural editorial interests. Wheat is in charge of M. L. Wilson of Bozeman, Montana. He comes to Washington from the Montana State College of Agriculture. The corn-hog division is headed by A. G. Black who hails from Iowa State College, where he has been head of the department of agricultural economics. The division of special crops is in charge of H. R. Tolley, head of the department of agricultural economics of the University of California.

None of these commodity divisions can be tied directly to any of the three grand divisions. It is evident that they must cooperate with all three. The bald fact of the matter is that the functions of none of the divisions are clearly defined, they merge into each other in a way most bewildering, not only to the outsider but to the men in the organization. As a chief of division explains, the machine is being built as it is operated.

With these general divisions are to be associated various advisors and committees. Gordon C. Corbaley of New York City, president of the American Institute of Food Distribution, for example, has been appointed advisor to the administration in food distribution matters.

Two diametrically opposed policies are indicated in the administration of the industrial control and the public works divisions of the National Recovery Act. Industrial control administration is to be centralized; public works is to be divided. Since the administration of the industrial control features of the Act have to do very largely with trade codes adopted by various industries, trades and lines of business, it is felt that the adjustment and harmonizing of these codes can be done only by a central authority in Washington. "It is not a czaristic proposition," says General Hugh S. Johnson, the Administrator. "It is industrial self-government I am interested in."

The organization of the Industrial Recovery Administration starts with the National Industrial Recovery Board appointed by the President. This Board includes the Secretaries, or their representatives, of Commerce, Labor, the Interior and Agriculture; also the At-

**General Johnson's Industrial Recovery Administration has one of the 5 1/7-acre floors of the new Department of Commerce Building**

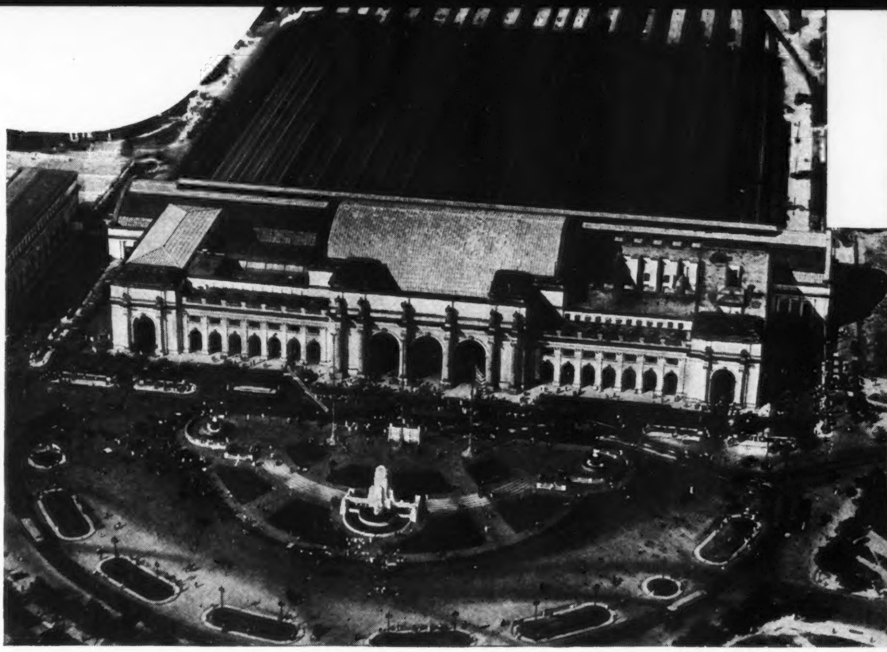
GLOBE

torney General, the Trade Commission and Hugh S. Johnson. It functions under the chairmanship of Secretary of Commerce Roper in theory; in practice it functions as General Hugh S. Johnson directs. General Johnson may be regarded as the Charles Gates Dawes of the new Administration. Lawyer, soldier, industrialist, a close associate of Bernard Baruch in politics and finance, a close associate of George N. Peek in plow manufacturing at Moline, member of the Wilson War Industries Board, originator and administrator of the selective draft plan during the World War—quite a record. He brings to his present great task a volume of energy and facilities for keeping the public informed which are likely to carry him far. His immediate staff includes an assistant administrator for industry in the person of Dudley Cates, a Chicago insurance man who was Secretary of the Capital Issues Committee in Washington during the World War; also an assistant administrator for labor, Edward F. McGrady, of Washington, legislative representative of the American Federation of Labor.

There is a chief of the Research and Planning Division. He is Dr. Alexander Sachs, director of the department of economic research of the Lehman Corporation of New York. The chief legal counsel is Donald R. Richberg, of Chicago, attorney for the railway brotherhoods and one of the authors of the Recovery Act. The chief of publicity is Boaz Long, formerly of the State Department.

### ADVISORY BOARDS

WHATEVER of czardom there is in General Johnson's administration, it is discreetly tempered or shared by advisory boards. There are three of them, and General Johnson was careful to divide the responsibility for naming them. Industry is represented by a board appointed by Secretary of Commerce Roper. It includes Austin Finch, president of the Thomasville Chair Company of Thomasville, N.C., designated by the Southern Manufacturers' Association for the job; Edward N. Hurley, Chicago, chairman of the board, Hurley Machine Company; Louis Kirstein, vice-president, William Filene's Sons Company, Boston; Alfred P. Sloan, president, General Motors Corporation; Walter C. Teagle, chairman of the board, Standard Oil Company of New Jersey; Gerard Swope, president, General Electric Company, and William J. Vereen, Moultrie, Georgia, cotton manufacturer, former president of the American Cotton Manufacturers' Association.



J. JAY HIRZ

**The Union Station in Washington. Office seekers from all over the country pass through here in both directions**

Members of the labor advisory board appointed by Secretary of Labor Perkins include Dr. Leo Wolman, economist, formerly connected with the faculties of Johns Hopkins, Michigan, Harvard and now of Columbia, as chairman; John Fray, Metal Trades Department, American Federation of Labor; Joseph Franklin, president, International Boilermakers' Union; William H. Green, president, American Federation of Labor; Sidney Hillman, president, Amalgamated Clothing Workers; Father Francis Haas, Catholic Welfare Council, and Rose Schneiderman, secretary, Women's Trades Union League.

Balanced between these two conflicting interests is the third chief interest, that of consumers. It is represented by the consumers' advisory board named by General Johnson himself.

Then there are Deputy Administrators who are assisting General Johnson in the conduct of the hearings on the codes of fair competition. Those so far named include W. L. Allen, New York, former chairman of the Sheffield Steel Company and former director of the American Rolling Mills Company; Professor Earl D. Howard, Northwestern University, formerly executive secretary of the committee on industrial relations, Chamber of Commerce of the United States; Arthur D. Whiteside, president of Dun and Bradstreet; C. C. Williams, retired Major General, Chief of Ordnance during the World War; K. M. Simpson, president, International Chromium Process Corporation, New York; Nelson Slater, manufacturer of cotton and rayon textiles, and Malcolm Muir, chief executive, McGraw-Hill publications, New York.

The functions of these deputy administrators are general. Some of them are specialists but none of them are tied to any one industry or line of investigation. Each in his way is an embodiment of the whole show. Later, however, it is expected that special deputies or officers by other names will be appointed to consider the problems and administer the law as to special large industries, such as the oil trade.

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**It is estimated by some that 200,000 Federal employees will be needed to administer the Agricultural Adjustment Act—not all of them in Washington, of course. This would be about one to every 52 agricultural workers in the country, or 1 to every 152 farm residents. A more graphic illustration of this number is that it about equals the population of Dayton, Ohio, in 1930**

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How large will the industrial control organization run? No one knows. "We hope it will not run large," is General Johnson's comment. But it is already apparent that it will be large. It must be large to touch every financial, industrial and commercial interest in the country as it does. After some controversy over quarters for the administration it was announced that a "floor" of the new Department of Commerce building in Washington would be set aside for the organization. Now, the new Commerce building in Washington covers three real city blocks and each floor represents five and one-seventh acres of floor space. It is possible that the assignment of (CONTINUED ON NEXT PAGE)

a "floor" to the new administration was partly a figure of speech but the association of the administration with five acres of offices is not altogether accidental.

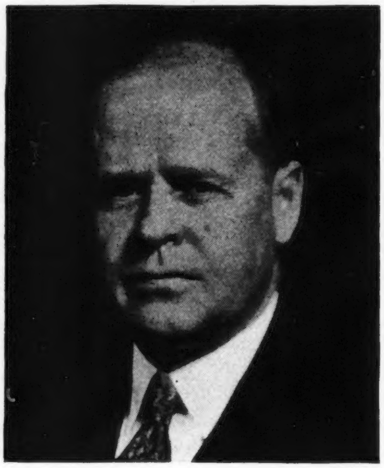
The administration of the Public Works Division of the Recovery Act also is largely a matter of boards under the general supervision of the Secretary of the Interior. The basic authority is the Special Board for Public Works named by the President, which is in fact the members of the Cabinet with the addition of several technical bureau chiefs. Under this general Board there is to be the usual administrative machinery which is as yet in the initial stages of organization.

### PUBLIC WORKS SET-UP

THE President has appointed Secretary Ickes himself as Chief Administrator—partly because he is qualified and partly to settle factional disputes. Under the Secretary, Col. Henry M. Waite, formerly city manager of Dayton, Ohio, is to serve as chief Deputy Administrator. Col. Waite is a grandson of a former Chief Justice of the United States, is an engineer and has a square jaw. There will be other assistant administrators and six divisions or administrative units. These units will include one having to do with general administration and policy, another relating to engineering and the technical feasibility of projects, a third dealing with legal matters, a fourth in charge of financial affairs, a fifth to pass upon the economic desirability of projects with special relation to unemployment and the revival of industry and the sixth a coordination bureau to consider each project in its relation to other projected works and general coordinated planning.

There is also to be a Board of Investigation and Review which will pass upon all applications for Federal financing of projects, and under this board there will be considerable elaborate machinery including engineering experts and a corps of investigators. This machinery in Washington also will have direct charge of all applications for projects arising from within the Government, especially from the Army and Navy, which are expected to form a very considerable part of the entire public works enterprise. Pending permanent organization, the work in Washington has been in charge of officers borrowed from the Federal Employment Stabilization Board in the person of Colonel Donald H. Sawyer, with H. R. Colwell as assistant.

Work of a more general character, not connected with Government enterprises, is to be administered so far as possible through state or regional organizations headed by administrative boards. Projects in each division will be examined and approved by the state or regional organization before presentation to the authorities in Washington. Each such organization, accordingly, will be equipped with a more or less complete set-up similar to that in Washington. The regional organizations already have much work cut out for them. The Reconstruction Finance Corporation is transferring to them applications for projects amounting to more than $500,000,000 in proposed outlay. The President has already directed the allotment of $400,000,000 to the states for road construction and $238,000,000 for the construction of war ships, this latter construction also being divided among the states so far as practicable.



GLOBE

**Frank C. Walker was appointed on July 12 to be the secretary and coordinator of the President's new Executive Council**

The Farm Credit Administration is further along in its organization than any other of the new agencies of the Government, partly because it was the first of the organizations authorized and partly because its constituent parts have been taken over as going concerns. The original idea in forming this agency was that by combining the operations of the Federal land banks, the joint stock land banks, the intermediate credit banks, the regional agricultural credit corporations set up by the Reconstruction Finance Corporation, the Federal Farm Board and the Crop Loan Division of the Department of Agriculture a more coordinated, harmonious and economical administration of the agricultural credit system would be effected.

However, if there ever was any idea that the new unit was to take the Government out of the banking business or lessen its activities in that line that idea soon disappeared. By the time the organization is complete it will be much larger than the total of all the agencies it supplants.

The farm credit system is controlled by Henry Morgenthau, Jr., as Governor, a man much more than the son of a distinguished father, a close friend of the President, long a student of agricultural credit organizations. He is assisted by two deputy governors—W. I. Myers and Herbert E. Gaston—both experienced in agricultural credits. There is also a general counsel in the person of Herman Oliphant.

### FARM CREDIT COMMISSIONERS

UNDER or associated with this general staff are commissioners having immediate charge of divisions into which the work of administration has been apportioned. There is Alfred S. Goss of Seattle, who is designated as land bank commissioner. In general he takes over the work of the old Farm Loan Board in control of the Federal land banks, the joint stock land banks and the machinery set up by the new law for refinancing farm mortgages. A second commissioner is the one for intermediate credits in the person of George M. Brennan, who has charge of the enlarged operations of the intermediate credit banks. A third is F. W. Peck, who is commissioner for a new system of central and regional banks for cooperatives, which is the successor of the Federal Farm Board while a fourth, at present unnamed, will be commissioner for a system of regional credit corporations and local production credit associations which is taking over the functions of the crop loan division of the Department of Agriculture. The central and regional banks for cooperatives have not yet been organized. In practically all divisions of the new set-up former organizations are still functioning to some extent as their work is gradually incorporated into and merged with the new units.

There are other new functions of Government being set up, the expanded home owners mortgage relief organization, for example. The full impact of all these new concerns on the banks and business of the country can be known only by experience. Each of them involves tremendous changes not only in actual business but in sociological and business viewpoint. The effect of most of them upon banks will be indirect. It is likely, however, to be far-reaching.

# 1 Bank

(CONTINUED FROM PAGE 25)

loaned to wheat growers. In fact the average banker did not pay very much attention to carryovers or acreages in planning his credit campaign. He knew Farmer Smith but not all farmers. The Government, on the other hand, being all-powerful and wise, would know all these things and would know just where to pump its surplus bank credit and where to drain it away for the purpose of controlling prices.

But, say the skeptical dissenters, suppose wheat raising went out of style; Farmer Smith preferred to raise peppermint or avocados; hailstorms destroyed growing crops; fire and vermin consumed stocks in storage. Control of credit would be of little avail here to stem price fluctuation.

### THE LENDING MOOD

BESIDES, credit extension is more a receptive than an aggressive process. In other words it is more wooed like a maid than it wooes like a man. Only rarely do bankers proffer credit assiduously. They more modestly and shrinkingly consent to enter a waiting frame of mind towards an applicant. If he will only speak up and originate something, they will sit in judgment; they may exude a frosty "no" or blush out a hesitant "yes"; they will be lien holders, not partners.

Therefore, the doubting individualists assert, as long as Farmer Smith and his colleagues enjoyed the right of choosing the field of their activities, of deciding for themselves whether or not they wished to engage in wheat culture and to borrow for that purpose, the Government would have little opportunity of directing its stream of credit into wheat production. It must not be forgotten that the Government is now a coy banker. As a banker it must await Farmer Smith's proposal; it must not pursue him.

But if the agricultural gentleman should remain distant and offish, invulnerable to beguiling charm, sick and tired of raising wheat that others may eat while he goes naked, something would have to be done about it. A despotic government could of course force Farmer Smith into wheat raising; but he would then be no longer free and equal in the sight of the law. The Government could, with its army of taxpayers solidly behind it and loyal to the bitter end—perhaps, become a farmer itself; or it could go into the market with treasury funds rather than bank credit, buy up wheat stocks, make it scarce, raise prices and stimulate desire in Farmer Smith to re-enter his old activity. We would then have a managed production—with echoes of Farm Board floundering, distress and program abandonment; and we would not have what we started out to establish—a stable price level for wheat.

Coercive action along economic lines is of course unthinkable. It would be so wholly at variance with the traditions of the Anglo-Saxon culture under which we live that any government attempting it would not last very long. Nor, if adopted at all, would coercion and price fixing be found in wheat production alone. The Government would have to take a hand at regulating practically every important economic activity. Sumptuary laws might even be unavoidable. Unregimented America would have to coin substitutes for the German "verboten" and its antonym.

The opponents of nationalization are therefore more than certain that attempts to regulate price levels through the control of credit by a Government bank are bound to be abortive. Governments have never been infallible or omnipotent in economic control.

We have very little actual precedent to go by. Of course there are the postal savings banks, the Federal Farm Loan banks in this country; the municipal savings banks in some European countries. But that is not banking. It is more of a brokerage business. Credit enters scarcely at all into its structure. Post office deposits are not loaned out to individuals; they are usually put right back into the same bank from which they were withdrawn by their timorous owners. The Government merely exacts ordinary savings bank security in the form of political subdivision bonds from the receiving bank and affixes its guaranty. As long as times are normal and post office banking limited in volume, all is well; the taxpayer does not immediately or perceptibly feel the burden of his guaranty.

### SOME POSSIBILITIES

BUT let all savings banking with its enormous totals of 24 billions be carried on by the post office, with loans made directly to borrowers instead of through private banks; let us have an extravagant or bellicose Government unable to balance its budget; let Government credit sink into the gutter as it can so easily; then there would be little or no confidence in post office banking.

That is because the basis of credit would then be the individual borrower and his property, the same situation now existing under private banking. For with but one bank, that of the Government, there would be no intermediate institution to deal directly with the individual patron. Of course the postal depositor would have the Government guaranty in addition; but that would be of value only as long as the Government was solvent and its taxpayers willing to carry the burden of losses. If these were large, it is certain that the voting taxpayer would not assume the burden indefinitely.

We do not have to have exceptional memories, however, to realize that world history is full of instances where governmental insolvency was not altogether a phantom. Chicago's present plight is only a very small sample of what can happen in a much larger way. Furthermore, if the taxpayer should stand behind all deposits, the burden of liability would be colossal. In 1930 the total debt to depositors in all American banks was 59 billions of dollars. Manifestly a Federal guaranty of that size would dilute appreciably even the most ardent nationalist's enthusiasm for his country's obligations.

Nor are the farm mortgage transactions of the Federal land banks or the

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**It is assumed that since private bankers have made a mess of things, public bankers would do better; that laws can legislate competency and honesty into public servants to better advantage than they can in private citizens. The fallacy lies in the assumption that bankers are wholly at fault. They have, in many ways, made a mess of things. But it should not be forgotten that they are not leaders, they are followers of their patrons' enterprise. If some bankers have failed, it is principally because their patrons failed first. Is there any assurance that the patrons of Government banking would not fail likewise?—The Author**

**Some form of Government ownership or control of banking moved a long step closer with the adoption of the deposit guaranty plan embodied in the Banking Act of 1933.**

**Just 25 years ago, in the JOURNAL'S second issue, ex-Secretary of the Treasury Leslie M. Shaw applied a common and historic American doctrine to an important banking question of that time. He wrote: "I do not believe that any banker, bank director or anyone with banking experience will favor Government guaranty of bank deposits. The proposition is so completely at variance with every business instinct that it is hardly worthwhile to discuss it. If such a proposition were feasible on economic grounds, it would still be objectionable to those who are opposed to a paternal government."**

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municipal home loan business of Europe real banking. The farm land banks do not accept deposits. They obtain their loanable funds by the sale of bonds of definite and delayed maturity. Their obligations to pay are therefore not beyond control nor are they subject to trouble making whims of timorous depositors. Neither are they guaranteed as to payment by the Federal Government.

Instead of being true banks, the Federal land banks may be more accurately described as market places where the seller of existing capital meets the buyer of such. While judgment and discretion of a high order are required and employed, the Government's real function is to put a policeman here and there to see that its rules of barter are properly obeyed.

The nearest approach to real banking under Government auspices is found in the Federal intermediate credit banks, institutions established by the Government to fill the gap of credit supply between the short term credits of trade or commercial banks and the long term credits of mortgage discounting banks. But even this type of bank does not loan directly to borrowers, nor do they take in funds on deposit. They make their loans through specially organized, privately owned and guaranteeing agricultural credit corporations or similar financing institutions. Loanable funds are obtained through sale of debentures to investors.

They do, however, engage in a form of commercial banking in that they finance production, harvesting and marketing of crops, all activities requiring judgment and discretion. But their advances are not made from the inception of crop production, as the private commercial banker is often called upon to do, but only after some one, usually the third-party agricultural credit corporation, has made the initial advances out of its own funds and the crop is fairly well along on its career. Only then will the intermediate credit bank repay the primary outlay. Furthermore its advances are marginally secured by funded collateral and wholly secured by mortgages, warehouse receipts and otherwise.

Although they also do not represent a depositing transaction, the open market operations of the Federal Reserve System do represent to a limited extent a semi-Governmental excursion into the field of real banking. True it is that the Federal Reserve banks are themselves owned by their member banks and not by the Government and are therefore not under immediate political control. But the politically appointed Federal Reserve Board in Washington is nevertheless tied in very closely with Government affairs. The power to establish rediscount rates, a moot question to be sure, inclines more and more to the Board rather than to the Reserve Banks. During the War and since, the exigencies of Government financing have often been the determining factors in the policies of the Board of keeping the level of rediscount rates below that of the general market, instead of above as is the usual way with central banks.

And while it would be an egregious error to say that politics in the usual sense of the term have played even a minor part in the actions and attitudes of the high principled men who, with little or no exception, have composed the Federal Reserve Board since its founding in 1914, it is this same group of Governmentally appointed officials which in 1927 so mistakenly pumped extravagant supplies of Reserve credit into the business fabric with such disturbing, if not disastrous, effect.

It is fair (CONTINUED ON PAGE 64)

## As late as 1932—

**Senator Carter Glass declared his opposition to a deposit guaranty plank in the Democratic platform, carrying his fight to the floor of the convention itself. He objected to this form of Federal responsibility for banking and said, "Why project this question at all? We have suffered enough already without adding another complication"**


KEYSTONE

# The Condition of Business

(CONTINUED FROM PAGE 5)

the week ended July 17, a total advance of 45 points, or more than 300 per cent for the four months of the recovery. The rise in such indices as car loadings and electric power production also continued without abatement. When the spring expansion began, loadings of finished goods were running almost 20 per cent behind a year ago. By the week ended June 3 the figures of this year had crossed those of the corresponding period in 1932, and by July 8 they were running more than 18 per cent ahead. Meanwhile, power production, starting 10.6 per cent behind last year's figures in mid-March, reached parity with a year ago in the week ended May 6, and by July 8 was higher by 14.7 per cent.

### STEEL

NEWS from the steel industry continued good throughout the past month. Steel output for June, according to the Iron and Steel Institute, was 2,597,517 tons, against 912,757 for the same month in 1932, and was the largest for any month since April, 1931. Equally impressive was the report on unfilled tonnage of the United States Steel Corporation, which showed an increase of 176,956 tons in June, the largest upturn since January, 1931. That there was some evidence of a let-up in demand was admitted for the first time, however, by the *Iron Age,* principal organ of the industry, which found at mid-month that "new business in iron and steel has been undergoing some recession, though pressure for shipments is unrelaxed."

**The Hole in the Doughnut**


SYKES IN THE NEW YORK POST

Far more sensational than the performance of the steel industry, however, has been that of the more volatile textile industry. Cotton mill activity in the United States during the month of June, according to the New York Cotton Exchange Service, was the highest for any month on record. During June, operations were at 125 per cent of the average for the period 1922-27, inclusive, which compares with 109 per cent in May and with 58 per cent for the same month a year ago. The previous record month was February, 1929, when activity was at 120 per cent of the 1922-27 average.

The great question that is concerning students of business is, of course, how much of this buying in the major industries is speculative in nature and how much is "legitimate". There can be no doubt, of course, that speculation has been playing an important part: first, because of the avowed intention of the Administration to put prices on a new plane; second, because of the desire of buyers to get their orders in before costs are affected by the operation of the Industrial Recovery Act. Many manufacturers have, as a matter of fact, inserted clauses in selling contracts providing for a readjustment of prices after this law becomes effective. The *Iron Age,* while declaring that "many buyers have anticipated their demands further ahead than usual," thinks it is "unlikely that the amount of speculative tonnage ordered is excessive." Which, of course, is not especially enlightening.

Aside from the World Economic Conference, at which this Administration struck another blow for inflation as against international reduction of trade barriers, the most important single development bearing on the speculative markets was the crop report as of the first of July. This revealed that for the first time in 65 years the United States will produce less wheat than it needs for its own requirements. The probable crop of wheat—winter and spring combined—is 496,000,000 bushels, the smallest in 40 years. The last time it was smaller was in 1893, when it fell to 427,553,000 bushels. At that time, however, the country's population was 40,000,000 less than at the present time.

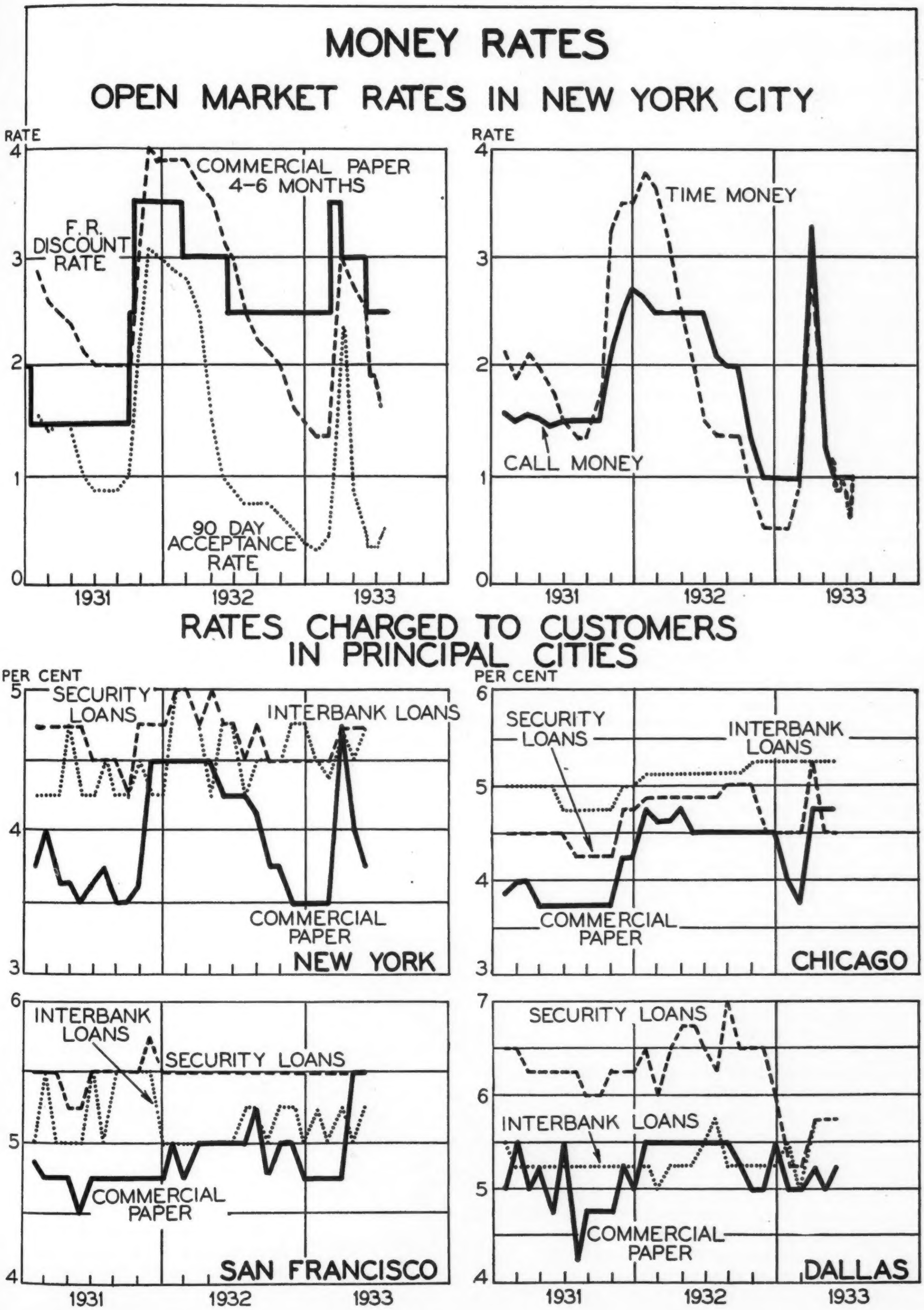
By the middle of July, May wheat was being quoted on the Chicago Board of Trade at above \$1.23. This is almost three times the price at which July wheat was quoted at the end of 1932, when it stood at 43⅝ cents. Cotton has not performed as excitedly as wheat, because the statistical position of cotton is less favorable, but it has pushed its advance to above 12 cents, against a low for the bear market of 5¾ cents. Secretary Wallace has placed processing taxes on both wheat and cotton, and is apparently pleased at the progress made in persuading cotton planters to reduce their acreage by 25 per cent. This is a good beginning, if the program is carried out, but it will not alone clear up the surplus situation in cotton. The country's carryover at the end of the last crop year was approximately a full year's production.

### CIRCULATION LESS

THE present boom in prices and business has added one more chapter to the disillusionment of those who have maintained that what we needed was "more money" to raise prices. Currency in circulation in the middle of July, when the Moody index of commodity prices stood at approximately 145, was nearly \$2,000,000,000 less than just before the bank holiday, when the index stood at 82. Nor can the phenomenon be attributed to an expansion of bank credit, for the latter has risen only about \$500,000,000 since the end of April, an amount which can be accounted for entirely by the expansion of brokers' loans to the stock market.

**The Early Bird**


TALBURT IN THE PITTSBURGH PRESS


MONEY RATES
OPEN MARKET RATES IN NEW YORK CITY
RATE
COMMERCIAL PAPER
4-6 MONTHS
F. R.
DISCOUNT
RATE
90 DAY
ACCEPTANCE
RATE
TIME MONEY
CALL MONEY
1931
1932
1933
RATES CHARGED TO CUSTOMERS
IN PRINCIPAL CITIES
PER CENT
SECURITY
LOANS
INTERBANK LOANS
COMMERCIAL
PAPER
NEW YORK
SECURITY
LOANS
INTERBANK
LOANS
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CHICAGO
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SECURITY LOANS
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SAN FRANCISCO
SECURITY LOANS
INTERBANK LOANS
COMMERCIAL
PAPER
DALLAS
1931
1932
1933

# —CONTINUED—

## Interest Rates After the Banking Act

(CONTINUED FROM PAGE 17)

The new Banking Act guards against this as far as possible by providing that "no member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings account except as to all savings deposits having the same requirements." This latter exception itself, however, offers a possibility of evasion, and the rules and regulations of the Reserve Board must guard against collusion between bank and depositor as well as against the depositor alone. In this matter it is evident that the fixing of rates of interest as between various maturities of time deposits and provisions governing the payment of interest on funds withdrawn from savings accounts are matters vital to the successful and equitable application of the law.

### BANKING LANDMARKS

THE prohibition of interest on demand deposits and the regulation of interest on time and savings deposits are generally accepted by bankers as two of the most important reforms in American banking effected in many years, not only in restoring to banks a proper balance between the cost of deposits and earnings upon them but also in ending abuses in other lines which have been built up as a result of competition for funds when funds are needed and the straining for size even when funds cannot be profitably employed.

It is evident, however, that the end of such competition and abuses cannot be attained unless there is cooperation in good faith between banks, and especially by action of the local and regional clearinghouses to give effect to the purpose of the new Banking Act. The new law, naturally, applies only to member banks in the Reserve system. Its effectiveness, accordingly, depends largely upon the cooperation of non-member banks which must come in most cases through the action of the clearinghouse organizations. It lies with the latter not only to assist the Federal Reserve Board in the formation of the rules and regulations which are to govern banks under the new legislation but also to give reality to the regulations when once they have been promulgated.

## The Alternatives In Stabilization

(CONTINUED FROM PAGE 19)

amply demonstrated that any advantage in export trade anticipated as a result of its depreciation is fallacious and ultimately results in loss. So long as the dollar is foot-loose no agreements as to tariffs or international trade restrictions can have any practical value. From every standpoint save that of its present domestic price policy it would be to the interest of the United States to agree to exchange stabilization, and it was doubtless for this reason that such stabilization was agreed to in the negotiations preliminary to the conference in London.

Fixing the value of the dollar in international exchange and keeping it there, however, would fix or at least tend to fix it in domestic valuations. Accordingly, in the American view its international value cannot be established until the desired price level in the United States has been reached. When that level is reached international stabilization will follow as a matter of course—by agreement, if necessary, but more probably as a result of the situation.

It has been the expectation of the authorities in Washington after the President-Premier conferences that the plan of raising prices in the United States would be carried out in conjunction with similar plans in other countries. This was clearly foreshadowed by the successive official communiqués following the visit of each foreign statesman. Such international cooperation would not only have rendered the task of each nation in this policy easier but would also have reduced the exchange fluctuations between their currencies to a minimum by a coordination of world prices.

The alternative of such cooperation is recourse to economic nationalism and the protective principle—protection by tariffs and trade restrictions, by currency stabilization or manipulation, by any and all means possible. Such was the policy indicated in the conference situation in London. Such is the policy the United States, of necessity, is now following.

**There Just Isn't Room for 3**


RAY IN THE KANSAS CITY STAR

## Farm Adjustment Begins

(CONTINUED FROM PAGE 15)

"in a workmanlike manner" the wheat acreage specified in the contract, but he can dispose of his wheat as he desires.

(4) As benefit payments are to be financed by processing taxes, all consumers will share the cost of paying producers to restrict production. The program is based on the assumption that restricted production by increasing the purchasing power of producers will benefit the general public.

(5) If the adjustment program succeeds, its launching probably will mark the end of an era of extreme individualism in agriculture in the United States.

Recent fundamental changes led Secretary Wallace to say, "What we really have to do is to change the whole psychology of the people of the United States." This is a large order. It involves the whole program of farm adjustment as well as the larger national economic program, of which farm adjustment is a part. If the people decline to participate in the program to the extent necessary to give the experiment a fair trial, we shall never know whether farm adjustment as now proposed would have succeeded or not if it had been given a fair trial.

PACH

Opening transactions on the New York Commodity Exchange

# A Merger of Commodity Exchanges

THE new Commodity Exchange in New York, opened July 5, brings trading in six commodities under one roof. These six are rubber, hides, silk, copper, tin and silver.

When trading ended on the first day, contracts aggregating $6,000,000 had been entered into in the four rings, the metals being grouped together in one. Approximate figures for the various commodities were silver, $3,200,000; rubber, $1,000,000; raw silk, $1,000,000, and raw hides $500,000.

J. Chester Cuppia, vice-president of the Exchange stated that on the basis of the combined facilities of the four rings, seats on the Commodity Exchange should be worth $31,000. At the opening, 23 members had been elected.

Governor Herbert H. Lehman of New York, formerly a member of the investment banking house of Lehman Brothers, expressed his congratulations to the new exchange:

"Readily accessible and soundly administered marketing facilities for commodities are necessary for the maintenance and development of the trade and commerce of our nation. I believe, therefore, that the coordinated marketing facilities which the new Commodity Exchange will provide will fill a necessary function in our business life."

## Answers to the July Question

(CONTINUED FROM PAGE 38)

bank loans 50 per cent, which, with increased balances of the mill and improved security for remaining loans would compensate withdrawals for the purchase of the issue. Produce other similar goods requiring little additional machinery. Appropriate $50,000 to advertise nationally the name of Farragut. Distributors' morale, sales and earnings would increase substantially.

The results are protection for the banks and increased earnings for the community.

### Advertising

IV. IT is obvious that by increasing the sale of the mill's products the problem will be gradually solved.

1. The two local banks, enlisting the cooperation of the metropolitan institution if necessary, should get together and loan the mill enough money to allow it to engage in a nationwide campaign of advertising, stressing such advertising particularly in the territory served by the weak distributor and featuring a lower priced quality product.

2. The results of such a campaign would increase sales, increase employment, reduce savings withdrawals and mortgage defaults, enable the weak distributor to lower his debt to the mill, and in turn help the mill to pay off its indebtedness.

3. The two local banks in the future should cut down on the amount loaned to the one industry on which the town is so dependent.

### Cost Accounting

V. THE mills must be recapitalized without receivership, with the two local banks in control. If mill property is mortgaged, mortgagees may consent to temporary interest cut. Solvent local merchants and prominent citizens must be called into consultation and every effort made to sell them new stock. Loyal employees may also be counted on for stock. Former officers might be retained for goodwill at low salaries and subject to dictation.

A satisfactory cost accounting system is the first requirement. Practical efficiency men should study economies, whether also to manufacture lower priced robes under another trade name, whether to advertise, and what other woolen products, upholstery fabrics, rugs or whatnot can be turned out, with

special attention to competitive conditions. It might be advantageous to reorganize the debtor distributor.

The city bank might be willing to fund its loan. Its own future is not at stake as with the local banks.

**Merchandising**

VI. 1. Consult an advertising agency of recognized national importance in regard to:

a. The product with possible changes of additions to the line.

b. A plan of merchandising involving distribution directly to department stores and other retail outlets.

c. An advertising program designed to create public demand for the product.

2. Employ accountants able and experienced in preparing operating budgets for manufacturers, having them:

a. Set up monthly budget.

b. Show amount of working capital required and for what periods.

c. Determine gross profit necessary on minimum estimated sales.

3. Determine after careful consideration whether the risk involved in carrying on under a new plan is justified by the circumstances.

4. Provided that such a course is wise every effort should be bent to:

a. Secure the best available personnel.

b. The cooperation of all parties concerned both directly and indirectly in doing whatever is necessary to make the operation successful.

**Change in Management**

VII. BANKRUPTCY, or immediate liquidation will cripple local banks and result in loss to city correspondent. All banks must cooperate.

Present management is apparently indifferent and the company needs working capital, volume and larger profit margin.

The banks, as part owners, should have a voice in management. New financing in the form of mortgages, bonds or permanent capital is necessary, the banks agreeing to advance proportionately self-liquidating loans for current raw material purchases.

Advances to distributors should be restricted and some payment from sales secured on the $150,000 advance.

The mills should engage a sales and merchandise manager. Without sacrificing reputation, they should substitute a cheaper line under a new name to meet competition and cover overhead and find new outlets.

If the forgoing is not successful, orderly liquidation is the last resort.

# Check Standardization

IN these days when every bank is searching about for new ways in which to save, the possibilities for further savings by check standardization must not be overlooked.

The Bank Management Commission of the American Bankers Association has estimated that nine-tenths of all internal banking expense occurs in the handling of checks, which must be proved, listed, credited, charged and, with transit items, endorsed, assorted, etc., involving a total of at least five different operations. Unless all essential data are uniformly placed, the speed in clearing checks is vastly retarded, and the added labor charges become a needless and wasteful drain on resources.

Superfluous shapes and sizes of checks also pile up production costs. They involve waste in cutting up paper, delays in the printing or lithographing plant, special handling charges, higher investments, and added possibilities for loss and misunderstanding.

### SIZES

THE following are recommended sizes. They cut without waste, and are purchasable at minimum rates.

Customers checks, 3 1/16 x 8 1/4 inches.

Pockets checks, 2¾ x 6¼ inches (binding margin 2¾ x 2⅛). Check numbers, dates, transit numbers, amounts in figures, and signatures all should appear to the right, except when drawn in the form of a draft, when the transit number and name of bank appear in the left corner. Where pictures or advertising matter appear on the check, they should be placed above and to the left of the name of the bank.

The annual national expenditure for checks has been put as high as 40 million dollars. While 85 per cent of all checks are now standardized, according to recent studies of the Department of Commerce, this still leaves open an item of $6,000,000, worthy the careful consideration of bank purchasing officers. Some customers will always see in special check sizes and styles a certain advertising value but their number is comparatively small and can be reduced if the benefits of standardization are placed before them.

When special check sizes are insisted upon, the charge for them should also cover extra handling costs.

# An Uncollected Item

IT was either the rough-and-ready independence of a small eastern bank or a misunderstanding that added to the bookkeeping confusion in its neighborhood during the bank holiday.

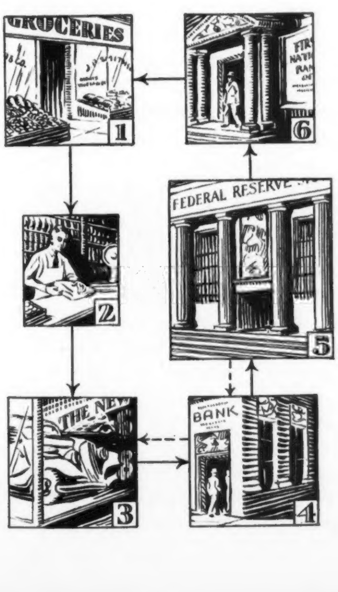
When a grocery clerk was ready to make the first payment on an automobile, he endorsed his paycheck, drawn on an out-of-town bank, and gave it to the dealer. The car was delivered. The dealer took the check to his own bank and deposited it. His account was credited and the check went on its journey to the Federal Reserve for collection.

While the Federal Reserve bank held the item the banking holiday went into effect. It was here that the drawee bank made its mistake. It stayed open in spite of the proclamation.

Also during this time it received from the Federal Reserve bank the check that had been drawn on it. The groceryman's account was debited and the check was returned to him.

Meanwhile, however, the car dealer's bank had given its customer notice that this check could not be credited, since it had received similar notice from the Federal Reserve, and credit would have to await the end of the moratorium.

Unfortunately, when the rest of the country's banks opened for business, the drawee bank went into the hands of a conservator. The car dealer has not, of course, received the amount of a first payment for the car, although the grocery clerk has a cancelled check which shows that payment was made. The grocery clerk has both the car and the cancelled check.



EWING GALLOWAY

# Tax Strike-ism

RETRENCHMENT, economy and reduced taxes have been sane developments in the deflationary period. Taxpayers, roused to action, are benefiting. However, the demand for economy in many cases has developed "a note of irrationality" as tax strikes deprive local units of taxes that are already levied and as legislatures consider tax limitation laws and liberalized delinquency penalties.

Attributing municipal financial troubles chiefly to poor tax collections, David M. Wood, New York attorney, pointed out in a recent address that "many municipalities have in the last few years been making drastic cuts in their budgets, and there is obviously a limit to the amount under which the municipal budget can be reduced if the essential government services are to be performed. Taxpayers and investors have collaborated in a movement intended to eliminate extravagance, but in many cases the demands for reduction of municipal budgets have been carried to an unreasonable extent. But the most important element in the situation is the quiet but persistent taxpayers' strike which is going on."

The municipal securities committee of the Investment Bankers Association in a report to members expressed alarm at the attitude of taxpayers in some sections and urged a combined effort at tax collections.

Such proposed measures as tax limitation laws and those to liberalize delinquency penalties, it indicated, are also doing more harm than good because of the adverse effect on local government credit.

# Silver Coinage

LARGER use could be made of silver coins in a number of countries without changing existing laws, it is revealed in a study made by Herbert M. Bratter of the Commerce Department's Finance and Investment Division.

The amount of silver coinage in most countries is determined by the requirements of the public, even where there are laws limiting the amount. Often, where there is a legal maximum, demand has not brought coinage to the allowable figure, and it is believed that in such cases no legislation is necessary to increase the present amount within the limits. Indications are that this is true of 59 countries and colonies.

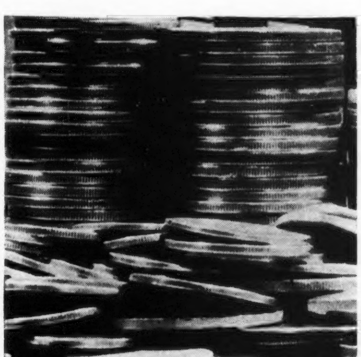
In the United States, the United Kingdom and most other countries coinage is regulated by the treasury or currency board as public needs dictate. Another method of control used, for example, in France is periodic issuance of coins, each time by special enactment.

Limitations generally take the form either of a per capita figure or a gross amount. Germany limited the amount of silver coin to 30 Reichsmarks per capita. Poland set 320,000,000 zloty as the maximum for silver, nickel and copper, 140,000,000 zloty being the silver limit.

Where laws are flexible enough, nations may substitute copper coins for nickel, nickel for silver or silver for paper, as they see fit. This practice has been used in Germany, France, Colombia, Mexico, Poland and Spain to improve the gold ratio.

It appears that in countries where business and commerce are habitually conducted with banknotes and checks there is a practical limit to the amount of metal which can be circulated.

Especially in Asia and certain parts of Africa, populations much prefer silver to paper currency. Mexico and western United States show a preference for silver.



EWING GALLOWAY


**The figures suggested by the author as limits of amounts to be loaned and as the ratio between loan and appraisal are merely intended as guidance for conservative lending**

# Real Estate? Pick and Choose

(CONTINUED FROM PAGE 23)

supported by masonry or concrete foundation with ample ventilation. Accessibility to transportation.

*Residence Income Property.* Age of building not to exceed five years (age is more important on income properties than on residence properties). Building must be proper improvement for the locality.

Size of lot: not less than 50 x 125 feet. Street must be improved with asphalt or cement surface, cement curbs, sidewalks and public utility service. Building, if more than two stories in height, must have brick or concrete exterior walls. If three stories or more, it must be equipped with elevator. If an apartment house, it must be completely furnished and equipped with electric refrigeration; chattel mortgage on furnishings and refrigerating plant to be part of the loan. If a furnished court, chattel mortgage on furnishings and refrigerating plant to be part of the loan. Deed of trust or mortgage should provide assignment of rentals. Accessibility to transportation is an important consideration.

*Business Property.* Age, design, condition of building, and income to be considered. Property must be located in established business center. Location should be studied, and attention should be paid to the purchasing power of the surrounding neighborhood.

Size of lot generally not less than 40 x 100 feet. Street must be improved with asphalt or cement surface, cement curbs, sidewalks and public utility service. Building to be of masonry construction, brick or concrete. Deed of trust or mortgage to provide assignment of rentals.

Office buildings, church and club buildings, hotels, service stations, garages, markets and theatres are not covered by these requirements. Either because of the investments they represent or because they are highly specialized properties, they are not readily salable and are less desirable, generally speaking, than other types of property as security for loans. If considered at all by a loan committee they should be subjected to an application of the broad principles proposed.

*Industrial Property.* Improvements must be of masonry construction, brick or concrete, or of corrugated iron with steel frame work, with concrete floors and foundations. A factory building, designed for a particular product and therefore subject to greater obsolescence, has less salability than a general purpose building. Railroad trackage and shipping facilities to be considered, also the age of the building.

If a factory building, it must be occupied by the owner or a responsible lessee for a term exceeding the loan. Occupancy by owner not required in warehouse, loft building, or work shop.

Size of lot: not less than 50 x 150 feet. Street must be improved with asphalt or cement surface, with cement curbs, sidewalks and public utility service.

It is desirable to avoid tying up too much money in large single loans. They tend to limit lending activity; in the event of foreclosures the properties are difficult to move. A larger number of individual loans tends to diversity, with corresponding reduction of risk. It is desirable also to reduce the likelihood of foreclosures, and this can best be done by keeping down the size of loans. And, finally, if loans are limited sharply in relation to appraisals, the salability of property which must be foreclosed is greatly increased.

The figures which are suggested later in this discussion as limits of amounts to be loaned and as the ratio between loan and appraisal are in considerable measure arbitrary. They aim merely to serve the general purpose of conserva-

**Neighborhood business property is subject to wide rises and falls in value**


ST. LOUIS Chamber of Commerce NEWS 5

INDUSTRIAL DEVELOPMENT

DURING April ten new industries located in the St. Louis Industrial District, and ten existing industries announced expansions.

HARDY SALT COMPANY, T. W. Hardy, president, formerly at 132 Dock Street, has moved to 4200 Forest Park Boulevard, where

will be manufactured in the plant of Beatrice Mabie, Inc., at the same address.

the former floor space is now occupied. The company specializes in theatrical and commercial posters for outdoor advertising.

**The author suggests, for industrial property, monthly amortization of not less than 2 per cent, including interest**

tive lending which is so very desirable.

The size of the lending bank, the activity of demand for loans, the type of properties offered for loans, the size of the community and its commercial and industrial activities, and other factors will serve to modify them.

**AMORTIZATION**

DEPRECIATION is inevitable in any building. The lender should be protected against this by a partial amortization of his loan. More important still, this amortization tends to liquefy the loan, makes repayment easier for the borrower, places him in position to refinance if necessary at maturity, and leaves the lender—if he must foreclose—in possession of the property at a figure which permits readier sale.

The amortization plan also keeps the note constantly before the attention of the bank. Delay or failure of the borrower in monthly payments immediately serves as a danger signal; it provides opportunity for steps which might be too late to benefit either borrower or lender if the weak condition of the loan does not become evident until maturity.

A still further, and not inconsiderable, advantage of the amortization plan is that it provides a steady and dependable in-flow of funds for re-lending.

The suggested rates of amortization, which follow, vary on different types of property. The variations reflect, in the main, the different estimates placed on salability of the properties or the problems involved in their operation in the event of foreclosures.

In the following groups are combined suggestions both as to amounts of loans and amortization rates.

*Residence Property.* Loan, $7,500. Loan not to exceed 45 per cent of appraisal. Appraisal to include the amount of assessments and/or improvement bonds. Utility depreciation is inevitable. Property reappraised as early as one year after a loan will show such shrinkage in value that a 50 per cent loan would no longer qualify, particularly if there were any failure to amortize regularly. Monthly amortization not less than 1 per cent, including interest. This would reduce a three-year loan approximately 20 per cent at its maturity.

*Residence Income Property.* Loans: apartment house, $30,000; flats, $15,000; courts, $15,000; double two-story houses, $7,000; double bungalows, $5,000. Percentage of loan to appraisal not to exceed 30 per cent. Appraised value to include payment in full of all street work and other public improvements.

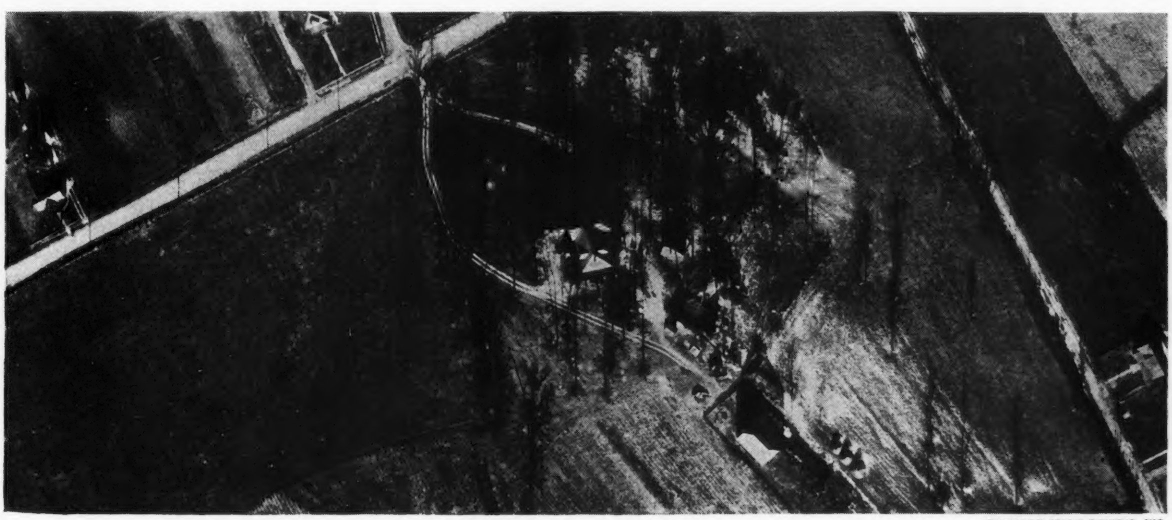
Monthly amortization not less than 2 per cent, including interest. If normal income is not sufficient to meet these payments, borrower must have free income from other sources.

*Business Property.* Loan must not exceed 30 per cent of appraised value. Appraisal to include payment in full of all street work and other public improvements. Monthly amortization of not less than 1 per cent, including interest.

*Industrial Property.* Maximum loan $25,000. Loan not to exceed 30 per cent of appraised value. Appraisal to include payment in full of all street work and other public improvements.

Monthly amortization of not less than 2 per cent, including interest.

*Farm Property.* The same apply on farm (CONTINUED ON NEXT PAGE)



FAIRCHILD AERIAL SURVEYS, INC.

**There must be a difference necessarily between the attitude of the country bank and the city bank on farm loans**

(CONTINUED FROM PRECEDING PAGE)
property that apply on other properties. Some specific considerations, however, concern farm properties alone, and there must necessarily be a difference between the attitude of the country bank and the city bank on this type of loan.

Financial responsibility of the borrower will be a first consideration. A financial statement will be required. Personal qualifications of the borrower will also be considered, since he must be in actual possession of and living on the property in order to make the loan desirable. And, in order that the property qualify for a loan the following conditions are to be imposed:

1. Soil, irrigation and its cost, drainage, topography, productivity, suitability of crop location, climatic conditions, frost damage protection, transportation facilities, school facilities, age of trees and vines, annual output of crops and their value, and farm equipment are to be considered with the very greatest care.

2. Area of land to be not less than 10 acres.

3. No loans to be made on vacant land.

4. Water stock must be pledged with loan. If the property be irrigated from an individually owned well or wells, entire ownership of the well must be vested in the borrower. Pump and equipment must be free of debt and under chattel mortgage with the lender. Chattel mortgage must be required also upon the farming equipment, to increase salability in the event of foreclosure and to permit operation without investment in new equipment in the event of foreclosure.

5. No loan should be made in excess of one-third of the appraised value of the property, nor in any case should loans be made in excess of a schedule such as this: citrus trees, $350 per acre; deciduous trees, $125 per acre; walnut trees, $200 per acre; alfalfa, $50 per acre; truck gardens, $50 per acre; vines, $75 per acre.

6. Irrigation or reclamation district debt must be subtracted from appraisal and the loan based on net valuation.

7. Annual amortization in the amount of one-tenth of the loan should be required. Loans may be made for a period of five years.

City banks lending on farm properties should provide for semi-annual examination of citrus properties, and a yearly examination of other crops. Country banks, because of nearness to properties, will be able to watch crop conditions.

Neither the loan limits nor the amortization requirements suggested here are liberal. They are intended to provide safety for the bank. Less exacting requirements might, with some degree of safety, be set by country banks than by city banks.

## When a Country Bank Buys Bonds

(CONTINUED FROM PAGE 32)
enable him to do a little better, but they will be rare if he maintains quality.

Current earnings will undoubtedly be lowered if these principles are followed, but there will be fewer and smaller losses to write off. The country banker should make his money in the field he knows best, loans to customers.

In deciding upon the size of his secondary reserve, the banker will do well to remember that savings deposits left the bank just as fast as checking deposits did in the recent crisis. Hence, despite the fact that they are regularly far steadier, it might be well to take at least 25 per cent of savings, instead of the 10 per cent suggested here, in calculating the size of the secondary reserve.

The secondary reserve of the small bank should have at least one-half of its funds in Government bonds.

It is most important, however, that all bonds other than Governments be diversified as to maturity. After the account is once set up, a better yield can be obtained through the continual purchase of five-year maturities to replace those issues which have just been paid off. In other words, one-fifth of your corporation and municipal securities should mature each year and should be replaced with five-year bonds.

The small bank should buy no bonds whose security is too complicated to be understood. In this classification are foreign government bonds and most holding company bonds. It is difficult for a man in Columbia, Missouri, to get a comprehensive grasp of the fiscal situation in the Argentine Republic.

The conservative banker never permits a high rate to lure him away from quality. The highest grade bonds have suffered least in this depression, and in the long run it is more profitable to buy the best of each type of security. The collapse in railroad bonds has scarcely affected the strongest equipment trust notes, and this may also be said of other types of high grade short-term bonds.

It is wise to maintain a reserve against bond losses if only for the purpose of levelling out earnings. It is suggested that any bond interest earned over 4 per cent (and there will be times when high rates make this possible) be credited until it amounts to 10 per cent of the holdings other than Governments.

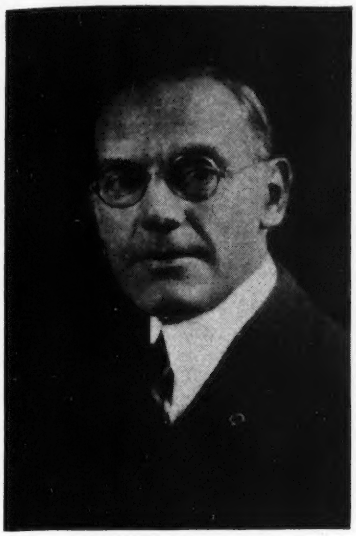
NOW, OF COURSE IF YOU'D RATHER NOT PULL IT YOURSELF——


DING IN THE NEW YORK HERALD TRIBUNE

## Canada's Banks

(CONTINUED FROM PAGE 31)
recent years the percentage figures for the United States have been growing perceptibly greater in comparison with the Canadian figures.

**Time deposits,** including postal savings in the case of banks in this country. Changes in dollar amounts are portrayed in Chart 4. The information contained there is interesting and probably significant. In the first place it is noticeable that time deposits in Canadian banks have grown much less rapidly since 1922 than is the case for all banks in the United States. The amount of such funds to be cared for increased from $676,000,000 in 1914 to $8,700,000,000 in early 1930. In other words, they were multiplied over 12 times. In the face of this situation it is quite easy to understand how these individuals came to give more and more attention to the investment aspects of their business, no doubt in some cases at the expense of commercial banking.



ANDREW MILLS, JR.

# A Central Bank for Mutual Banks

TO MAKE possible the lifting of restrictions on withdrawals which have been in existence since the bank holiday, and to enjoy the rediscount privileges of the Federal Reserve System granted by the new Banking Act, the mutual savings banks in the state of New York have just chartered a new central institution to be known as the Savings Banks Trust Company.

Temporary officers include Andrew Mills, Jr., president, Dry Dock Savings Bank, as president; David A. Lanman, president, Brooklyn Savings Bank, as vice-president, and Cornelius R. Agnew, vice-president, Franklin Savings Bank, as treasurer.

This institution, with a prospective capitalization of $107,500,000, has already been subscribed to by 125 of the 140 mutual banks in the state, and the remainder are expected to participate as soon as their boards can pass upon the plan. Through Federal Reserve membership it will be able to rediscount to the limit of its capital for the benefit of any member banks whenever need arises for the use of these facilities. If this central bank accepts no deposits, moreover, the deposit guaranty assessments required of member banks after January 1, 1934, under the terms of the new Banking Act, may be avoided.

As an auxiliary to the Savings Banks Trust Company, there was also formed the Institutional Securities Corporation, which will buy and sell mortgages owned by participating mutual banks, with a capital of $10,000,000. Arrangements with the Reconstruction Finance Corporation make available up to $100,000,000 for the financing of mortgages. Both organizations have been approved by the banking board and the superintendent of banks, and have been chartered under the advice of Governor Black of the Federal Reserve Board and Chairman Jesse Jones of the R.F.C.

Thus has been brought to successful realization the continued efforts of the savings bankers of the state to develop a plan of self-help which would make possible the continuation of a generous attitude toward distressed borrowers and at the same time do away with restrictions on withdrawals.

While there is little expectation of the development of a situation which might make necessary the use of these facilities, they assure a constant liquidity and an added protection against any embarrassment which might come from a flood of withdrawals for speculative purposes in a period when interest in stock market activities is at a height.

This action is another exemplification of the benefit of group action in meeting a complicated problem, and offers interesting possibilities for bankers in every state in the Union.

## 1 Bank

(CONTINUED FROM PAGE 49)

to say, however, that had they been appointed even by the banker-elected directors of the 12 Federal Reserve banks themselves, perhaps their action would have been no different. For the record of nearly all bankers in those credulous bonanza days of unlimited security financing was fully as bad if not worse. Nevertheless the error of the Federal Reserve Board only confirms the postulate that the wisdom of Government officials is no more infallible than that of the private citizenry from which they spring.

There is one important reason perhaps why we have no real precedent of a successful wholly Governmentally owned and operated commercial bank of deposit and discount (the two Banks of the United States were always at least four-fifths privately owned). That is because there is virtually no way, in an organization which is essentially and unavoidably bureaucratic in structure and operation, to divorce credit from capital banking in the matter of security required.

Should the Government run deposit banking as it runs the Post Office—and it would virtually have to—it would necessarily be run by laws and rules, by appointed agents, political favorites, job seekers and job holders. Very few Government officials dare take the initiative or assume responsibility. Practically everything is deferred to higher-ups, to established precedent.

Unless loans were to be doles at the hands of the taxpayers, the rule book of the Government bank would be obliged to say "You must incur no losses". Well enough; no bank should suffer losses in theory. But in practice they do and it cannot be otherwise, unless they are to be mere warehouses for money, mere bailees for hire or hoarding places for hoarders. Of course with that form of banking the rule there would be little business in the modern sense of the word.

A test of the purity of character of a credit transaction is to determine whether or not the commodity or service financed is always in process of sale. If it is not, the line of demarkation between a liquid credit transaction and a more or less fixed capital investment becomes perilously dim. Therefore, if the Government's rules for the extension of commercial credit were to be inviolably correct in principle and practice, the Government bankers would have to forecast to the end of the trail all advances, for fear of improper use.

## Certified Political Accountancy

(CONTINUED FROM PAGE 13)

use $84,000,000 for modernizing shore stations.

The ordinary appropriations for the Army establishment were reduced in a manner to threaten the positions of thousands of officers, men and civilian employees. The public works fund will be used to provide for the expenditure of from $50,000,000 to $135,000,000 for new army housing and for improvements for air corps stations and national cemetries according to the plan.

There is no occasion for considering these shifts in appropriations or the general budget situation in a critical light since they are probably the best that can be made, once it is admitted that the entire recovery program of the Government is necessary and justified. The point to be noted is that by whatever name they may be known they involve expenditures by the Government which must be met sooner or later by the taxpayers of the country.

At the end of the fiscal year the public debt of the United States was $22,539,-000,000, or within four billion dollars of

the peak of $26,596,701,648 in August, 1919, when the cost of the World War was at its height. The deficit, capital expenditure, extraordinary budget—call it what you will—of the current national program bids fair to raise the total debt to the post-war level.

Justification for all this expenditure will be found only in the success of the recovery program. If the latter fails it will be just too bad. If it succeeds it will be worth the price. In any event the country in its next period of prosperity will devote its surplus revenue, as it did in its last days of prosperity, to liquidating this new form of war debt. In whatever form the recovery program is financed—by bonds, greenbacks, devaluation of the dollar or otherwise—the country will pay. These great expenditures represent debt and debt cannot be dodged.

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## Direction

KEEP your directors thoroughly informed as to the status of deposits and business of your bank as compared with that of competing banks. This information should be a great incentive for them to be on the lookout for new business. One of the best ways to present these facts is by means of a chart or graphic representation to be shown to the directors at least every two months, or after every call statement. One bank executive prepared a circle divided into sectors, each representing the proportionate amount of deposits held by each bank in the city. He also got up a similar diagram showing the proportionate gain in resources of all local banks for a series of months.

In a bank in a certain city of about 100,000 population, the board of directors at each meeting receives complete information about all accounts brought in by directors since the last meeting. In some cases after this has been done, other directors within the next few days have brought in two or more accounts, having been inspired by the previous report. Keeping up such a friendly rivalry may be a good solution of a difficult problem—getting directors to do their best to promote the growth of their institution.

Ask your directors to send you a list of concerns and individuals whose business it would be profitable for the bank to have. A blank form should be given them to fill out, and a stamped reply envelope to put it in. When you have compiled a list of prospects whose business you want, ask each director to run over the names, and tell you the persons or concerns he knows personally. Then write each prospect a letter, either on the bank's or the director's own letterhead, and have him sign it. This has brought new business for some banks that have tried the plan.

Other banks have taken one line of business at a time, and made up a list of prospects of concerns not already customers of the bank. They have taken it to the director who is in that particular line of business, gone over it with him for suggestions as to how best to get into contact with the account. Definite assignments to directors having some point of contact with certain prospects usually work out well. If you give a director something definite to do, usually he will be glad to do it.

The directors of your institution are the first group of men who should be approached in new business efforts for the trust department. A strenuous effort should be made to induce each director who has not already done so to make his will and name the bank as his executor and trustee. It is embarrassing to have to try to explain to prospective clients why a director failed to name his own bank as his executor and trustee.

One particularly aggressive bank keeps a car handy for almost daily calls on stockholders and directors.

# Employee Advancement

AMERICAN banking takes a justified pride in its long record of furnishing unusual opportunities for advancement to its employees. In executive positions in almost every institution in the country are men or women whose bank careers began with minor clerical tasks, and whose records are proof positive of the recognition accorded to ability and assiduity in the banking business.

The problem of detecting and rewarding merit was a simple one when banks were small and everyone was under the eyes of the senior executive; but, with the growth of banking, and the need for departmentalization, new factors are involved which require careful study if morale is to be maintained and latent executive abilities given their chance to develop.

The department head is not worth his salt who does not wish to keep his own work at a very maximum of efficiency and can hardly be expected to look with favor upon an idea that might cost him his best men or women, yet unless some method can be found for placing such employees in position to advance, not alone in earning power but into spheres of broader usefulness, the institution must inevitably suffer.

To meet this situation, certain banks have developed a rating system, by means of which it is possible for the senior officer to keep a line on the accomplishments of every employee of promise, and have a running record of his aptitudes and progress. A simple card record is established which shows the name and family connections of such employees, traces their work from the date of original employment, and supplies any other data which might be useful in determining their qualifications for a position of greater responsibility, or their entitlement to increased compensation.

When openings develop, a committee of junior officers utilizes this information to select a list of those worthy of recommendation, which list is then passed along to a senior committee that makes further eliminations and submits its more specific findings to the executive or board with whom a final choice rests.

### VARIOUS METHODS

IN other banks, methods for the transfer of promising employees from department to department are in operation, with the treble idea of bringing out unsuspected talents, getting the opinions of various department heads as to their qualifications for higher positions, and broadening the opportunity for well rounded bank experience.

Complex though human nature is, everyone is alike in expecting suitable recognition for diligence, ability and intelligent application, and morale depends largely upon employee-belief in a bank's recognition of merit and its policy of advancing those worthy of advancement.

The knitting together of an efficient banking organization is not the work of a day or a month or a year, but a slow, continuous process requiring the best study of every bank official. The progressive bank is not comprised of a series of departments, each concentrating on its own narrow interests, but of one cohesive group, working wholeheartedly for the success of the entire institution. Such a staff is impossible unless there is a system for the recognition by the management of ability, and adequate reward for merit.

# Auditor's Monthly Checklist

THE Bank Management Commission of the American Bankers Association has compiled this list of 48 items which require attention *once each month.*

Reconcile "Due-from-Bank" accounts, checking balances to daily statement.

Reconcile "Federal Reserve Bank" account.

Reconcile "Due-to-Bank" accounts, checking balances to daily statement.

In reconciling "Due-to-Bank" accounts check all outstanding remittances to central department blotters to determine that they were received subsequent to audit date.

List trial balance of outstanding remittances in transit.

Count cash and cash items.

Audit clearinghouse exchanges by adding clearings of one night to the mail clearings of the following morning and compare with clearinghouse settlement sheet.

List trial of securities ledger.

List trial of notes and note ledger, at which time inspect all notes for initials of vice-president or cashier.

List trial balance of all individual ledgers.

List trial balance of inactive individual ledger.

List outstanding cashier checks, demand and time certificates of deposit, certified checks, expense vouchers and dividends unpaid.

List trial balance of savings ledger.

List trial balance of inactive savings ledger.

Check interest paid to bank accounts and individual accounts.

Check bank and individual account interest paid to accrual accounting records.

Compare bills payable advices from Federal Reserve bank with general ledger entries to "Bills Payable" account.

Check bills payable interest, making use of Federal Reserve bank advices.

Check bills payable interest paid with accrual accounting records.

Check Reserve deficiency interest against report of average excesses and deficiencies, and Federal Reserve bank advices.

Audit salaries paid as receipted for in payroll book.

Make report of cash differences to vice-president.

Check credits to "U. S. Tax" account, by reference to working sheets for individual accounts, draft audit sheets for cashier checks, etc., and duplicate rent receipts for safe deposit rents.

Check bank balance interest credits with advices of credit.

Check bank account interest received with accrual accounting records.

Check overdraft interest credits with overdraft statements.

Check cash collection interest credits with subsidiary ledger.

Check entries for service charge on savings accounts.

Check service charge on telegraphic transfers from duplicate transfer forms to general ledger entries.

Check individual checking account service charge entries.

Check the Profit and Loss report together with the supporting schedules, which are made a part of this report.

Prepare and mail postal savings account report to Government.

Compare "Circulation" account entries with Government advices.

Compare general book dates of new circulation notes received with registered mail receipt book dates.

Check entries to reserve accounts with offsetting entries to nominal accounts.

Check purchase invoices paid against requisitions.

Check security purchase entries with invoices or other reliable information.

Check security maturity entries with security records of cost.

Check security sales entries with correspondence between purchaser and bank officials, or by personal verification with purchaser.

Check loan recovery memorandums, received from cashier, to general books.

Check other real estate rent receipt memorandums, received from cashier, to general books.

Check signatures of two-days' savings withdrawals.

Cross-check two-days' business of collection teller, and follow through to general book accounts.

# The Reserve Board's Difficult Assignment

(CONTINUED FROM PAGE 12)

respecting withdrawal or repayment or subject to different conditions by reason of locations."

The Monthly Review of the Federal Reserve Bank of New York for July 1 states that the passage by Congress of the Banking Act of 1933 was probably the most important influence upon the money market during June, and adds that the provision which had the most immediate effect on New York City banks was that which prohibits the payment of interest on demand deposits. "In the week ended June 21, the week in which the Banking Act was signed, the net demand deposits of the principal New York banks declined nearly $350,000,000, and in the following week there was a further decline of nearly $100,000,000."

A large part of this reduction was in the New York balances of out-of-town banks. "Coincident with the reduction in demand deposits in the week ended June 21, there was a moderate increase in the time deposits of the New York banks, which during the past few months had tended to decline gradually." This transfer of funds from demand to time deposits was met by a reduction in interest on time deposits by the clearinghouse from one-half of one per cent to one-quarter of one per cent, effective on June 22, probably a more drastic reduction than anything that would have been ordered by the Federal Reserve Board. Some of the financial writers have pointed out that the increase of time deposits with less reserve requirements is "an unexpectedly important contribution to the cause of inflation and expansion of bank credit," but the banks had such large excess reserves before this shift that the increase in their potential expansion powers is of no immediate consequence.

The section, creating a Federal Open Market Committee provided that no Federal Reserve bank shall engage in open market operations except in accordance with regulations adopted by the Federal Reserve Board, confirms powers already exercised by the Board, and the section which provides that no officer of any Federal Reserve bank "shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board," will remove a source of some criticism and friction. This is obviously intended to prevent the Federal Reserve Bank of New York from entering into negotiations of any kind with foreign central banks. Of course, no Federal Reserve bank ever has had authority to enter into formal negotiations with any foreign central bank and it is my belief that this whole matter has been much exaggerated.

In Sec. 30 the Board is given power to order the removal of officers and directors of member banks who have been certified to the Board by the Comptroller of the Currency or a Federal Reserve Agent as having continued to violate bank laws or who have continued "unsafe and unsound practices" in conducting the banking business. There was originally a good deal of opposition to this section, and the fact that it includes the power of removal for "unsafe or unsound" practices as well as for violation of law, gives it a certain vagueness and apparently gives the Board or the Comptroller of the Currency considerable discretion in defining such practices.

The Reserve Board itself has had similar powers of removal with relation to officers and directors of Federal Reserve banks since the beginning of the System, and they have rarely if ever been exercised. In all probability this section will merely enable the Comptroller to secure an occasional wholesome resignation, the exact reasons for which will never be made public.

## PERMIT ISSUANCE

IN two or three very important sections of the Act the Board is authorized to issue permits. One of these has reference to the control of bank stock holding companies or group banking organizations which must agree to furnish reports and to submit to examination by the Comptroller's office or the Federal Reserve authorities and must agree to accumulate certain reserves within a certain fixed time. Another which is found near the end of the Act, provides in the words of the report of the Banking and Currency Committee of the Senate that "no officer or director of a member bank shall be an officer, director or manager of any institution engaged primarily in the business of purchasing, selling or negotiating securities, that no member bank shall act as a correspondent bank for any such institution and that no individual, partnership, corporation or unincorporated association shall act as correspondent for any member bank, unless a permit thereof is issued by the Federal Reserve Board. The issuance and revocation of any such permit rests with the discretion of the Board," which in the language of the Act may issue such permits if in its judgment it is "not incompatible with the public interest." This is somewhat similar to the so-called Kern amendment to the Clayton Anti-Trust Act which gives the Board authority to permit interlocking directorates among three banks when "not incompatible with the public interest," and its purpose appears to be to prevent the control of commercial banks by investment banking houses or brokerage firms.

# Estate?


## How Much?

WHEN a man has sufficient confidence in an institution to name it as his executor or trustee, or as both, in his will, usually he will not hesitate to discuss his financial situation frankly. A trust prospect can be told in a diplomatic way that by taking the bank into his confidence a testator insures its cooperation in planning legitimate savings in the matter of inheritance taxes, duplicate taxation and estate shrinkage.

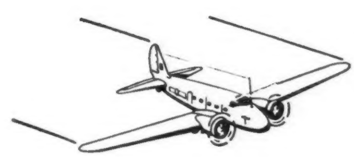
When it is not possible to obtain the approximate value of an estate in this direct way, estimates can be made from general knowledge, the credit files and, as far as real estate holdings and mortgages are concerned, from official records and a knowledge of the current market. At the present time, of course, there would be considerable charging off to be done. In many cases, wills are signed by persons who have been customers of the bank long enough that the officers have a good general idea of their financial standing and holdings. In the case of life insurance trusts, the exact amount can be known from the policies on file.

"In discussing a man's will or his trust," says one trust officer, "in the majority of cases I find that I am able to get from the man a rather complete picture of his estate and its value. If I feel that a client will not welcome direct questions, I try to obtain the information by discussing income and the amount which his estate will produce. Whenever I am unable to give a just estimate of a man's worth, I always check him carefully with the other officers in the bank, and also consult the credit file regarding him if he is a client. If not, I generally find one or two persons in the organization who have sufficient knowledge of his personal affairs to give me a fair indication."

As to the practical results of estimating estates, the consensus of opinion is that one of the greatest benefits is the opportunity it gives to appraise the efficiency of the bank's new business efforts in the trust department.

The practical benefit of such analysis of new trust business is that it gives a comprehensive view of the value of the new business coming in, and it affords an indication of how long it is likely to be before the trust department will not only carry itself, but add materially to the profits of the entire bank.





## Events and Information

(CONTINUED FROM PAGE 36)

vention meeting in Chicago as follows:

### ARTICLE VII, SECTION 8

IN order that the General Counsel of the Association may in the future bear the same subsidiary relationship to the Executive Manager as the Deputy Managers and other officers and employes of the Association, the words, "a General Counsel" are stricken from the first sentence of Article VII, Section 8, of the Constitution, bearing the caption, "Officers and Employes" so that it will then read:

> The Executive Council at the meeting for organization provided for in Section 7 of this Article shall elect an Executive Manager and a Treasurer, who shall be coordinate officers.

### ARTICLE VII, SECTION 9

IN view of the fact that the "Special Emergency Reserve Fund" contemplated in Article VII, Section 9, of the Constitution has long since been accumulated, and the further fact that there has been created a "Reserve Fund" of substantial amount, the constitutional provision for the creation of "a current and emergency fund" is inoperative and unnecessary; therefore, it is recommended that the provision for creating this fund be stricken from the seventh sentence of Section 9, Article VII of the Constitution, so that it will read as follows:

> It (meaning the Executive Council) shall make appropriations and scrutinize the disbursements thereof.

### Public Relations

IN April, the American Bankers Association delegated to the Public Education Commission, under the chairmanship of John H. Puelicher, the preparation of material which would be of service to member banks in the promotion of a better understanding of banking by depositors.

The cooperation of bank specialists in public relations was promptly enlisted and a series of eight Conference Discussions has now been prepared under these heads:

Your Customers and Your Bank
What Will You Tell Your Customers?
The New Customer
Trouble Customers
Why the American Banking System?
Your Bank and Other Banks
Your Bank As a Source of News
Planning Your Public Relations

The timely and practical value of these discussions to the individual bank in meeting one of the most difficult of present day problems is obvious, and Dr. Harold Stonier, Educational Director of the American Bankers Association, who has been active in the preparation of this useful material, will supply complete information upon requests addressed to him at 22 East 40th Street, New York.

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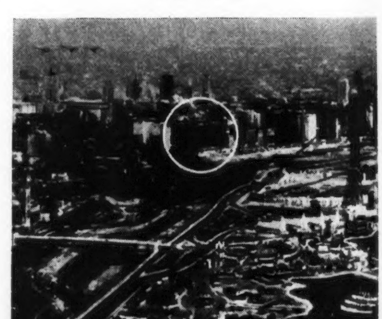
**Across the Exposition grounds toward the Stevens Hotel (circled) and the Chicago business district on farther to the north**



SOIBELMAN

# Books

INFLATION? By Irving Fisher. Published by Adelphi Co., New York, 1933. 104 pages. Price $1.50.

Prof. Fisher discusses with much timeliness our unstable dollar and the part it plays in the present monetary hodgepodge. This small volume is well supplied with charts on prices of commodities and the other economic factors that constitute the author's theories on sound stabilization of the money unit.

Some of the chapter headings are "Sound Money", "Who and/ or What Is to Blame?", "Tragedies of the Unstable Dollar", "Booms and Depressions and *This* Depression", "Recovery and Permanence".

LEADERS AND PERIODS OF AMERICAN FINANCE. By Theodore J. Grayson. Published by John Wiley & Sons, Inc., New York, 1932. 566 pages. Price $4.00.

In his foreword, Dr. Grayson, professor of finance in the Wharton School, University of Pennsylvania, says that his controlling purpose in writing the volume has been "to show how our private finance developed from the firm basis of public finance which first arose in the brain of Alexander Hamilton, and then to describe the gradual evolution of American business enterprise through the century and a half just past."

The history of American finance as dealt with here begins in the Colonial period and ends with Elbert H. Gary and "the philosophy of modern business." The work of living men is not included.

EXTRAORDINARY POPULAR DELUSIONS AND THE MADNESS OF CROWDS. By Charles Mackay, with a foreword by Bernard M. Baruch. Published by L. C. Page & Co., Boston, 1932. 724 pages. Price $6.00.

This is a reprint of the 1852 edition of a book first published in 1841. Deletions from the first edition may be obtained in pamphlet form for $1.

Mr. Baruch says that "Mackay is a narrator, not a diagnostician." While no conclusions are drawn in any of the material, the stories make fascinating reading. Some of those with financial implications tell of the Mississippi Bubble, the South Sea Bubble and Tulipomania. Others describe the magnetisers, fortune-telling, the Crusades, witch mania, haunted houses and duels and ordeals.

FROM CHAOS TO CONTROL. By Sir Norman Angell. Published by The Century Co., New York, 1933. 208 pages. Price $2.00.

This is the Halley Stewart Lecture, 1932. In it the author has offered answers to such questions as "What is the fundamental cause of world chaos? Is it really economic? Can current conditions be remedied merely by an application of economic principles?"

The answer given to the first is that education has not prepared modern democracies to understand the nature of a vote-controlled society. Governments are compelled to follow policies that experts know are unsound. Some indication is given of the reforms that are necessary.

VOLUNTARY ALLOTMENT; PLANNED PRODUCTION IN AMERICAN AGRICULTURE. By Edward S. Mead and Bernhard Ostrolenk. Published by University of Pennsylvania, 1933. Price $1.50.

Assuming that agriculture should be protected by the privileges that govern other utility-producing industries, an allotment plan is presented whereby the Government will reward the farmer for restricting his output to the estimated demand by a cash payment to supplement the low market price of food, this reward in turn to be collected through a tax on middlemen who will inevitably pass it on to the consumer.

# The Mississippi Bubble

JOHN LAW, whose name will always be connected with the disastrous Mississippi Bubble, was one of the great theoretical economists of the last few hundred years. But because "Beau" Law could not foresee the terrific possibilities of his theories in the hands of an economically ignorant and money hungry populace he is now described by many historians as a charlatan, a rogue and brigand.

A Scotsman by birth, Law peddled his economic theories about Europe until finally in 1716 he induced the Duke of Orleans, regent of France, to sanction a bank under the name Law and Company. This company, later the Royal Bank of France, was so successful that the Mississippi Company was formed, under Law's direction, to exploit the resources of France's great territory in North America.

A frenzy of speculation swept the country when the Company's shares were offered publicly. The regent gleefully ordered the printing presses to produce more of his money and at the same time he devaluated the monetary unit. Law had forgotten sound theory, parliament was powerless under the regent and the latter did much as he pleased. But the country was enthusiastic about this seeming prosperity and wholeheartedly welcomed it after the unpopular reign of Louis XIV.

### THE SCENE IN PARIS

PEOPLE were crushed in the happy mobs of investors. Lackeys became rich on the amounts the stock appreciated between the time their masters sent them to market to sell and the time they transacted the business. Brokers were stabbed as they walked the streets with their pockets full of stock and money. But Paris had never seen such elegance and luxury as successful speculators enjoyed.

Then early in 1720 one nobleman, taking advantage of what then was much like the present "gold clause", withdrew his money from the bank in several cartloads. He was persuaded to return part of it, but others followed his example. Deflation had set in.

Gold and silver fled to London and Amsterdam, not blessed at the time with currency acrobatics or prosperity. An edict was published forbidding anyone to have more than 500 livres in coin in his possession, under pain of fine and confiscation. Government agents and spies almost drove the citizens to revolution.

Meanwhile, Mississippi shares had fallen rapidly. To restore some semblance of order, the regent conscripted all the poor and unoccupied men in Paris, supplied them with picks and shovels and sent them off, ostensibly, as an army to work the mines and forests in America. At the seacoast they were quietly turned loose and reappeared soon after, shovels on shoulders, at their old haunts in the Capital.

In spite of the spasmodic measures of the regent and his advisers, recovery was left pretty much to take care of itself. Law was allowed to leave the country, and was able through his mathematical accomplishments to gamble more or less successfully until his death a few years later.

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**The picture below and the quotation from Daniel Defoe given under it are taken from an issue of Bankers Magazine in the 1850's, shortly after Charles Mackay's story of "Beau" Law appeared in a second edition**

JOHN LAW.

**MONEY MANIA.—THE MISSISSIPPI SCHEME.**

Some in clandestine companies combine;
Erect new stocks to trade beyond the line:
With air and empty names beguile the town,
And raise new credits first, then cry 'em down:
Divide the empty nothing into shares,
And set the crowd together by the ears.—*Defoe.*

# Fire Insurance

**Know the Companies**
**Study the Policies**
**Watch Property Values**
**Keep Accurate Records**

EVERY bank is concerned with fire insurance protection, both directly and indirectly. Aside from its own institutional uses, attention to fire insurance for estate properties is one of the functions of the trust department, and in handling mortgage loans a bank is interested in safeguarding the collateral back of those loans. Ordinarily this interest centers on the mortgagee clause, correct property descriptions and the amounts of the policies, but the companies themselves must be acceptable and their financial standings and records must be known to the bank both for its own protection and for that of the mortgageors who seldom know one fire company from another. Then, too, fire protection becomes even a more direct and immediate responsibility when properties are taken over under assignment of rents or deed, and the bank or mortgage company becomes the operator or owner. In these cases fire insurance alone is not sufficient and the bank must have other special forms of coverage, such as general liability, public liability, elevator liability, boiler liability, etc., on each property.

The events of the past year, too well known to most bankers, have served to increase these problems and have made necessary closer banking attention to insurance matters. As revealed in interviews by the JOURNAL, bankers are studying the records and financial standings of fire insurance companies, and they are taking steps to keep better posted. Some of them are studying the insurance already in force to eliminate weak companies and weak policies and to keep the amounts of the policies in line with property values. Others are installing adequate insurance record systems, or improving those already in use. And not a few banks and mortgage companies are making personnel replacements to bring more experienced insurance and real estate men into their organizations to strengthen those departments.

## ACCEPTABILITY

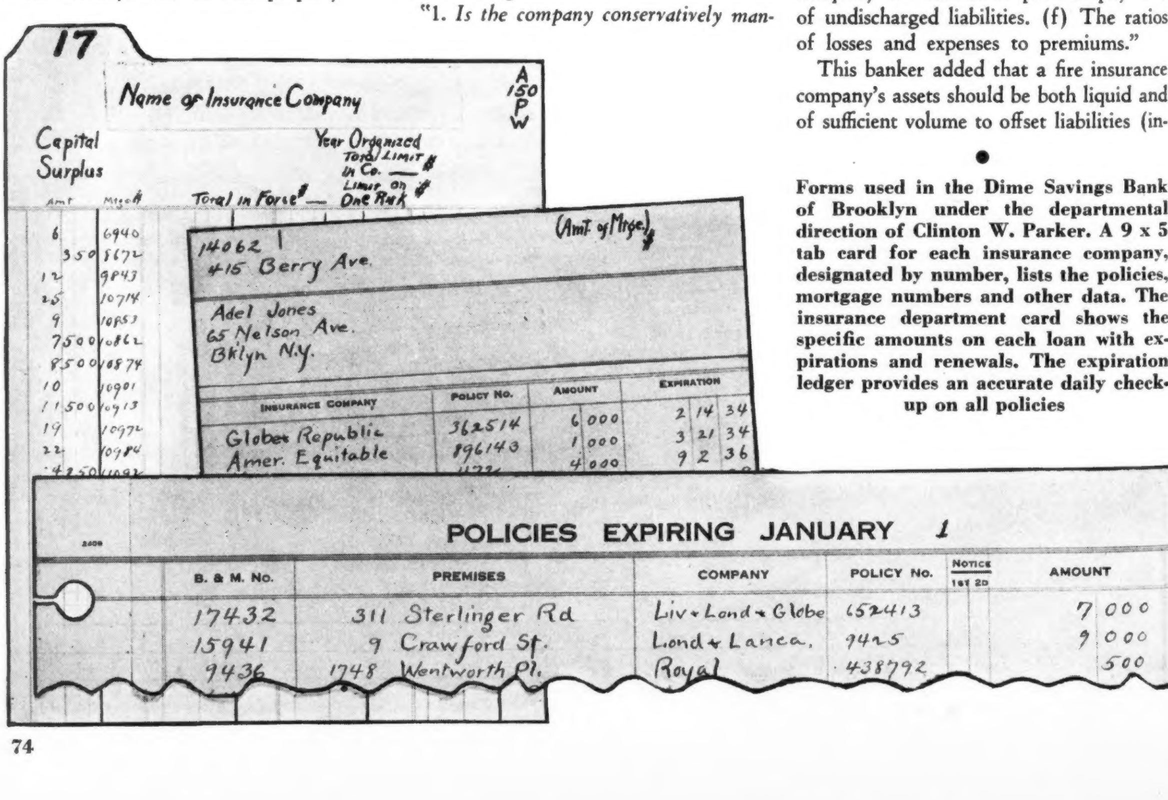
QUERIED for the facts to be considered in the purchase or acceptance of fire insurance protection, the insurance department manager of one large bank offered the following:

"1. *Is the company conservatively managed*—(a) as to territory, (b) as to the volume of business in proportion to net resources, (c) as to investment policy, (d) as to the selection, type and geographic location of risks, (e) as to economy of expenses?

"2. *Does the policy afford adequate protection*—(a) as to the company insuring, (b) as to the coverage obtained, (c) as to replacement value under average clause (80, 90 or 100 per cent), (d) as to extra hazards, (e) as to the mortgagee clause if the property is mortgaged?

"3. *What should be looked for in the analysis of the statement?* (a) Liquidity and character of investments, with special attention to common stocks and real estate holdings. (b) Comparison of gains with stockholders' equity, and comparison of profit and loss with earned premiums in the underwriting exhibit. (c) Ascertain if the loss and expense ratios are normal. (d) Compare the relation of capital and surplus to the estimated cost of re-insuring or carrying to expiration the business in force, and to undischarged liabilities. (e) The adequacy of reserves to provide payment of undischarged liabilities. (f) The ratios of losses and expenses to premiums."

This banker added that a fire insurance company's assets should be both liquid and of sufficient volume to offset liabilities (in-




**Forms used in the Dime Savings Bank of Brooklyn under the departmental direction of Clinton W. Parker. A 9 x 5 tab card for each insurance company, designated by number, lists the policies, mortgage numbers and other data. The insurance department card shows the specific amounts on each loan with expirations and renewals. The expiration ledger provides an accurate daily check-up on all policies**

## INSURANCE ANALYSIS FOR RESIDENCE PROPERTIES

DATE...............

In Column "A" we have checked the forms of insurance you now carry.

In Column "B" we have checked the forms of insurance we believe you should carry.

Assured.............Fire Rate Bld. ...........Cont. ...........
Owner of Dwelling? .............Add.............
Business of assured? .............
Business Address? .............

| A | KINDS OF INSURANCE | B |
|---|---|---|
| ✓ | Fire—Dwelling | |
| | " Household Goods | |
| ✓ | " Garage | |
| | " Rents | ✓ |
| | Windstorm | |
| | Explosion | |
| | Earthquake | |
| | Aircraft Property Damage | ✓ |
| | Golfers | |
| | Jewelry and Fur Floaters | |
| | Personal Effects Floaters | |
| | Silverware | |
| | Paintings | |
| | Musical Instruments | |
| | Other Articles | |
| | Auto.—Liability Limits | |
| | " Prop. Damage Limit | |
| | " Collision Ded. | |
| | " Fire Amt. | |
| | " Theft Amt. | |
| | " Plate Glass | |
| | " Windstorm, Hail, Earthquake, Explosion | |
| | Liability—General | ✓ |
| | " Employees | |
| | Compensation | |
| | Residence All-in-One | |
| | Burglary, Theft and Larceny | |
| | Steam Boiler | ✓ |
| | Accident and Health | |
| | Life | |

Dwg.: Ever been appraised?.............Amount? $.............
Have you made any inventory? .............Value? $.............
Garage: Ever been appraised? .............Amount? $.............
What would your house rent for per month? $.............
Possible damage? .............Amount $.............
Liklihood of explosion? .............
Is property adjacent to air fields? .............
Member of what club? .............
What is the value of your jewelry and furs? $.............
Value away from residence at any one time? $.............
Value? $.............
Value? $.............Ever exhibited? .............
Type? .............Value? $.............

No. of cars owned by assured?..........All insured?..........Subject to special rate?..........
Any cars laid up for winter? .............
Any cars now insured by Finance Companies? .............
Shall we renew at expiration? .............
Expiration? .............
Particulars? .............

Number of families? .............
Number of in-servants?.............Out-servants?.............Chauffeurs?.............
What kind? .............
Weekly benefits? .............Principal sum? .............
How old is assured?.............Married?.............No. of children?.............

Remarks?.............

We shall be glad to have you quote rates on forms of insurance marked with a cross (X).............

Signed.............
Assured or Agents.

## BUSINESS PROPERTIES

In Column "A" we have checked the forms of insurance you now carry.

In Column "B" we have checked the forms of insurance we believe you should carry.

Assured.............Fire Rate Bld.............Cont.............
Owner of Building.............Add.............
Has schedule been issued?.............Who has it?.............
Business of assured?.............
Names of other tenants?.............

| A | KINDS OF INSURANCE | B |
|---|---|---|
| ✓ | Fire—Building | |
| | " Stock | |
| | " Machinery | |
| | " Fur. & Fix. | |
| | " Rents | ✓ |
| | " Bus. Int. Ind. | |
| | Tornado | |
| | Auto.—Liability Limits | |
| | " Prop. Damage Limit | |
| | " Collision Ded. | |
| | " Fire Amt. | |
| | " Theft Amt. | |
| | " Plate Glass | |
| | Compensation | ✓ |
| | Plate Glass | ✓ |
| | Liability—Public Limits | ✓ |
| | " Elevator | ✓ |
| | Burglary—Stock | |
| | " Safe | |
| | " Interior Hold-up | |
| | " Exterior Hold-up | |
| | Steam Boiler | ✓ |
| | Check Forgery | |
| | Registered Mail | |
| | Mail Package | |
| | Leasehold | |
| | Sprinkler Leakage | ✓ |
| | Life | |
| | Bonds | |
| | Explosion | |

Building ever been appraised?.............Amount $.............
How does inventory compare with insurance carried?.............
Value of machinery?.............
Value of furniture and fixtures?.............
Rental income of building?.............
What would assured lose per day if business was stopped on account of fire?.............

No. of cars owned by assured?..........All insured?..........Subject to special rate?..........
Any cars laid up for winter?.............
Any cars now insured by Finance Companies?.............
Shall we renew at expiration?.............
Expiration? .............
Particulars? .............

Annual payroll?.............
Size of all glass?.............
Size of building: Ft. frontage?.............Ft. depth?.............Stories high?.............
What kind?.............
Value of stock?.............
Value of contents?.............
Amount of cash on hand?.............
Amount of cash in messengers' hands?.............
What kind?.............
Is any merchandise sent by mail?.............
Are premises leased?.............By whom?.............Ann. rent Pd? $.............
Is the risk protected by Automatic Sprinklers?.............
How old is assured?.............Married?.............No. of children?.............

Remarks?.............

We shall be glad to have you quote rates on forms of insurance marked with a cross (X).............

Signed.............
Assured or Agents.



**These forms, copyrighted by Allan C. Stevens, manager of the insurance department of the Westchester Title & Trust Co. of White Plains, N. Y., and president of the Great Eastern Fire Insurance Co., are used for surveys and recommendations for additional insurance on residence and business properties. The reverse sides provide for complete records of the policies**

cluding capital) and leave a substantial surplus which should be maintained in an amount at least equal to the paid-in capital. "Safety," he said, "is not necessarily dependent upon the size of the company insuring, but upon the conservativeness of the management with special regard to investments, economy of management and selection of risks."

As to the size of the insuring company, this view differs somewhat from that of other banks which require minimum capital and minimum surplus of $1,000,000 each before a company is considered acceptable. It is in complete agreement, however, with the view of a banker-insurance man who came to the defense of the smaller companies that are well diversified and ably managed. The latter stressed percentage of liquidity, management, Best's rating, investment policy, class of business accepted and risks taken, and membership in recognized underwriters' associations as the chief qualifications. Companies out of step with the associations in the insurance field, he stated, may be paying higher than normal rates of commission for business or they may be writing risks at subnormal rates, and in either case they would stand alone in facing difficulties. There is no such thing as "cheap" insurance, he added. Companies have made money in past years on their investments, but only conservative profits on normal business; and hard work, not price, builds a successful insurance company or agency. Care should be taken also to avoid a company that may have become known among insurance men as a dumping ground for poor risks.

### ANALYSIS AND RECORDS

"KNOW the companies" was the first consideration also of a banker recognized as an authority on insurance. He urged a thorough analysis of investment policies, histories, group connections, etc., with a word of caution that in a group each company should stand on its own merits and over-loading of the small companies should be avoided. While the large or controlling company in a group would probably stand back of its subsidiaries in an emergency, there would be no legal obligation involved. Figures should be studied, but not depended upon too closely as they change quickly. Statistical services covering this field were recommended for reference use. In his institution a limit of $100,000 is placed on any one company and any one risk based on type and construction.

As the next step, this banker emphasized the importance of checking the insurance now in force. By this process some time ago he found one company known to be weak but carrying $500,000; he wanted to cancel the policies and had other companies re-insure; two months later the first company failed. Caution must be taken in these cases, however, to avoid "runs", to which insurance companies can also be subjected. As another step, watch real estate values and the changing insurance amounts under the 80 per cent rule. And at all times keep accurate records by companies, properties, and expiration dates.

Still another banker who was formerly in the insurance field emphasized a company's standing with the state insurance commissioner, capital and surplus figures, surplus to policyholders, management (Best's, 1 or 2), loss paying record (this must be "A"), general reputation, and the company's service on endorsements, etc. His institution also is guided by its acceptable list of fire companies, and limits both risks and policies to $100,000.

Record-keeping and a knowledge of the insurance totals in force, surprisingly large in many institutions, are alone sufficient to impress the importance of the factors discussed here.

# Real Estate Anticipates Inflation

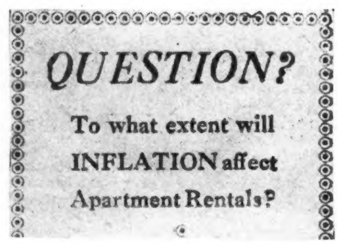
THERE seems to be a somewhat better feeling in the real estate market in different parts of the country. Improved conditions in general business, increased employment and rising commodity prices apparently are beginning to have their effect on real estate prices.

One of our major economic prophets says: "Real estate is always among the last to freeze in a period of depression, and, conversely, it always lags in a period of recovery. The same general pattern of other depressions will be followed in this recovery, but as to residential building, heavy construction work and a rise in real


estate values, the lag will be less than in past depressions."

One of the largest life insurance companies recently raised by 10 per cent its sales quotations on farms and homes which it has acquired by mortgage foreclosure. This is believed to be a significant indication of a better time coming for real estate. Another is that one important savings bank in New York City has withdrawn from the market some of its best holdings, in the expectation of better prices soon. Some of the best properties among the assets of the defunct Bank of United States in New York are also being held for better prices.

From Boston comes the report that the attitude of lending institutions toward their loans has changed considerably in the past few weeks. This is a good barometer by which to gauge the prospective upswing in the real estate market. It is an almost certain guide by which prospective buyers may reckon the time to buy. Yesterday, banks were worried by the amount of foreclosed property they had on hand.




Today, they are sitting back again, more confidently awaiting the predicted turn in the real estate market.

The Boston *Post* says:

"It is easy to understand why any upward business movement is quickly reflected in the price of real estate. It must be remembered that practically all the property offered for sale by lending institutions has been offered at prices which may be termed 'write-off' figures. Once hope is restored it is reasonable to suppose that these figures will be jacked up quickly to that point where it would be possible to save something on this 'write-off'.

"Many instances of such 'jacked-up' prices have been reported recently by brokers—both on sales and on rentals—which indicate the trend. One broker left the lending institution for which he acts as agent with a listing of a home in the suburbs for $12,000, only to find that when he got back to his office—and before he had written his advertisement at all—that the bank had changed the price from $12,000 to $15,000.

"Another broker had a house listed which he was authorized to offer for as low as $5,200, exclusive of his commission, only to find that an offer he received of $5,500 would be turned down unless the buyer would agree to pay the back taxes and would do his own renovating. Another house which was offered a few weeks ago for $8,100, was sold for $8,550."

A broker who reports a brisk demand for homes in Westchester County, New York, says:

"People are taking advantage of present low prices, which show signs of stiffening under the influence of higher building costs and a shortage of new houses. The volume of sales made by our organization in June exceeds any one month since April, 1930, and is five times the volume in June of last year."

In the entire New York metropolitan district a distinct upturn in suburban residential sales has been noticeable this summer, and reports from other sections of the country indicate the start of a similar trend. It is thought that one important reason for increased activity in home real estate is that people are beginning to realize that the present great bargain era cannot last indefinitely.

Another straw showing how the real estate wind is blowing is the fact that with


stock transactions in June breaking all records for any corresponding month in the history of the New York Stock Exchange, the building shares led all other groups in the extent of their price upturn. In June, shares of companies having to do with the building industry advanced 30.2 per cent, as compared with an advance of 13.3 per cent in 100 representative common stocks.

A big factor in this upswing in the building group is the great public works program of the Federal Government which is now getting under way.

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**The advertisement headings on this page appeared recently in newspaper real estate columns**

# $87,928,535 in 84 Cities for Renovation

**In practically all of the local renovation and modernizing campaigns bankers are active workers on the committees and in some cases are leaders in the work. In Washington, D. C., bankers were instrumental in the organization of a pool to provide funds from which property owners could borrow if necessary to carry on renovation projects.**

ONE of the most resultful of the organized efforts to speed industrial recovery and to increase employment is the nationwide campaign for modernization and renovation of homes and other buildings. This is entirely aside from the various features of the National Industrial Recovery Plan. It is being conducted largely by local modernizing campaign committees, though with the assistance of the Advisory Committee on Reconditioning, Remodeling and Modernizing, of the Bureau of Standards, Department of Commerce.

Property improvement campaigns were conducted in 145 cities in the United States in 1932, and most of them are continuing this year. During 1932 and the first quarter of 1933, in 84 of these cities a total of $87,928,535 was expended for labor and materials, according to reports submitted by the local committees.

One of the most outstanding campaigns of this nature is the "Renovize Philadelphia Campaign", conceived and developed by the Philadelphia Federation of the Construction Industry. The purpose was to relieve unemployment, to stimulate business, to stabilize property values and to improve the real estate assets of financial institutions. It was originally hoped that $15,000,000 of additional purchasing power would thus be injected into Philadelphia business. That goal was readily attained and a new goal of $25,000,000 was set.

Four special features of this successful Philadelphia campaign were the cooperation of local architects and engineers in forming a competent staff to furnish preliminary counsel to property owners; a construction bureau of contractors and subcontractors to give advice to property owners on estimates and the award of contracts; seven different sets of check lists of suggestions and items to be scanned on individual properties and an exposition for the specific benefit of home owners to show what can be done to repair, remodel and restore homes.

The great present interest in this subject was plainly demonstrated by the fact that in one day 20,000 persons visited the second annual Building Merchandise Exposition in New York. About 65 leading manufacturers and distributors of materials, equipment, appliances, devices and supplies to be used in building modernization and rehabilitation displayed their products to visitors representing the owners and managers of approximately 30,000 investment structures. Among the chief exhibits were the following:

A new partition material of asbestos and Portland cement which comes in panel strips, finished either as fabric, wood veneer, or in paint. It slips onto steel studs as uprights, and can be slipped off just as easily for mounting in another place, the same pieces being used over and over again in shifted partitions; complete electric kitchens showing how old apartments may be modernized in this manner so attractive to housekeepers; the economies of elevator renovation with improved automatic controls and better cars.

Other exhibits included automatic refrigerators, automatic coal stokers, oil burners, corrosion and rust preventives, insulation, wall and floor coverings, composition roofing, modern plumbing, etc.

Among the cities where successful campaigns have been held are Birmingham, Alabama; Phoenix, Arizona; Sacramento, California; Detroit, Michigan; Minneapolis, Minnesota; Rochester, New York; Asheville, North Carolina; Columbus and Dayton, Ohio; Richmond, Virginia; Spokane, Washington; Utica, New York; Little Rock, Arkansas; Galesburg, Illinois; Duluth, Minnesota; Buffalo, New York; Cincinnati, Ohio; Portland, Oregon; and Dallas, Texas. That, of course, is by no means a complete list.

A typical home modernizing campaign for a smaller city was that of Lincoln, Nebraska.

Its purpose was to solicit every business man and every other individual who could be reached for the purpose of urging him

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**The movement for real estate modernization and improvement is receiving the enthusiastic support of bankers, economists and industrial leaders throughout the country. They are unanimous in expressing the opinion that now is the time to repair and improve. Their attitude is well expressed by the president of a leading savings bank in New York, who says: "We have an interest in seeing that property is not allowed to depreciate. For that reason we have advanced money where assignments of income property have been made over to us because of the inability of the owner to meet his obligations during this period of commercial depression. We can not increase the size of the mortgages, so we do what is necessary, whether it is to put in new refrigerators, if needed, or to renovate and redecorate the property or make alterations in the structure that will help to keep up or increase the income because the property is thus made more desirable."**

**The tabulation of the results of the "Renovize Philadelphia" campaign shows that financial institutions in that territory pledged $1,200,000 for work on 4,000 properties in the case of residences, and $399,500 for work on 130 business buildings. One of the trust companies analyzed the income from residence property it owns or manages and found that the earnings from renovized property are from 7 per cent to 10 per cent higher than in the case of property upon which no money has been spent for modernization.**

to indicate what he or his firm would be willing to do during the following three months to create jobs, permanent or temporary.

This campaign asked for no charity but was planned to save money for the property owner, to relieve unemployment conditions, to stimulate all lines of business, and to allow the worker to pay his bills. It was designed to lessen the requirements for direct relief funds.

The plan was sponsored and directed jointly by the American Legion, Chamber of Commerce, Junior Chamber of Commerce, Community Chest, Commission on Stabilization of Employment, Lincoln Builders Bureau, Nebraska Manufacturers Association, Lincoln Manufacturers Association, Lincoln engineers, architects, contractors, civic clubs, Veterans of Foreign Wars, railroad brotherhoods, city and county officials and building trades.

To secure the cooperation of the press and radio facilities in promoting the campaign, a committee on publicity was formed. It also secured cooperation of civic clubs, conducted a speakers' bureau, promoted a general educational campaign, and circularized property owners, indicating that statistics showed that the time was most favorable to make needed repairs and improvements or to begin new construction.

A committee on technical information, made up of engineers, architects and contractors gave technical advice to committees, to the public and individuals, and made preliminary surveys of needed public and private improvements. Requests for this service were filed with the Lincoln Builders Bureau. This service was in no way designed to provide plans or designs which should be provided by individual crafts or engineers.

### THE PLAN OF ACTION

CAMPAIGN committees divided the city into districts, secured and directed the army of solicitors in calling upon property owners and securing signed pledges to expend money in repairs, improvements, odd jobs and new construction.

A placement committee directed the placement of men in jobs created. The municipal employment bureau, where there was a list of unemployed, was used as the central employment bureau.

The local campaign committee, developed from representative members of active civic groups, set a goal of $1,500,000. It estimated that approximately $1,800,000 was expended for labor and materials on home improvements and repairs, including some commercial construction. In all, 300 individual employment pledges were secured, which provided approximately 14,000 hours of labor on odd jobs during the 90 days following the campaign. As a result of this improvement campaign the Lincoln community chest reported a decline of 50 per cent in applications for relief during the period of special activity.

That an organized home-improvement campaign is a worth-while community investment is revealed in a study of the costs of such campaigns conducted in twenty cities throughout the country. These cities were selected as typical from the list of 145 which have reported results of campaigns to the Commerce Department's home modernizing committee.

The population of the cities studied ranged from 10,000 to 300,000, with campaign costs varying from $100 to $5,000. Actual pledges toward property improvements, obtained as a result of the campaigns, varied from $40,000 to more than $10,000,000.

The average population of the twenty cities was 74,000; the average per capita expenditure on the campaigns less than two cents, with an average per capita investment in property improvements around $14.

While each citizen of a community conducting a modernizing campaign naturally does not either contribute to its expense or benefit directly by its results, it is pointed out that no city can spend amounts ranging from $40,000 to $10,000,000 locally without stimulating local business and improving the local labor situation.

A prominent real estate operator says: "If our banks would make a thorough survey of the present cost of modernization in the buildings they own they would quickly see how economically they could make good income-producing property out of them."

FOLLOWING is an interesting table of percentages—a figure-fact breakdown showing the nature of the renovize pledges made by Philadelphia in this successful campaign:

| | Percentage |
|---|---|
| Air Conditioning | .10 |
| Carpentry | 6.80 |
| Concrete and cement | 2.84 |
| Electrical work | 4.51 |
| Elevators | 1.23 |
| Flooring | 2.53 |
| Heating | 3.91 |
| Landscaping | .75 |
| Masonry | 1.90 |
| Painting | 8.23 |
| Paperhanging | 4.15 |
| Plastering | 3.16 |
| Plumbing and steamfitting | 5.16 |
| Power plant | .45 |
| Roofing and sheet metal | 3.58 |
| New construction | 8.38 |
| Alterations | 6.38 |
| Additions | 7.55 |
| Miscellaneous | 28.39 |
| Total | 100.00 |

**Our Severest Critic**


ORR IN THE CHICAGO TRIBUNE

**A Victim of Experience**


THE ST. LOUIS GLOBE-DEMOCRAT

## CONVENTION CALENDAR (1933)

### A. B. A. MEETING

| | | |
|---|---|---|
| Sept. | 4–7 | A.B.A. Convention, Chicago. |

### State Associations

| | | |
|---|---|---|
| Aug. | 24–25 | North Carolina Bankers Association, Wrightsville Beach. |
| Sept. | 1–2 | Wyoming Bankers Association, Casper. |
| Sept. | 7 | Delaware Bankers Association, Rehoboth. |
| Sept. | | Kentucky Bankers Association, Louisville. |

### Other Financial

| | | |
|---|---|---|
| Sept. | 11–14 | Financial Advertisers Assn., New York City. |
| Sept. | 15–16 | Massachusetts Savings Banks Association. |
| Sept. | 18–20 | National Association of Securities Commissioners, Milwaukee, Wis. |
| Oct. | 10–11 | Mortgage Bankers Association, St. Louis, Mo. |
| Oct. | 23–24 | New York Savings Banks Association, New York, N. Y. |
| Oct. | 28–Nov. 1 | Investment Bankers Association of America, Hot Springs, Va. |
| Oct. | | National Conference of Bank Auditors & Comptrollers, Chicago. |

## INDEX TO ADVERTISERS AUGUST, 1933

The August Question:

# "What Services Can City Banks Render Their Correspondents Under the New Banking Act?"

THE new Banking Act, by prohibiting the payment of interest on demand deposits, brings into new prominence the relations between city and country banks and the methods by which they may be strengthened to the mutual advantage of both groups of institutions.

While a hasty glance at the new situation may indicate that the inability of the metropolitan bank to pay interest must result in wholesale withdrawals, a broader-gauged study reveals many opportunities for the cementing of even firmer connections as a by-product of this legislation.

Readers may recall the survey which the JOURNAL conducted in the winter, the results of which were published in the January and March issues. Many avenues for broader service were pointed out in this study, notable among them the development of a service by city banks designed to render help on investment and management problems to smaller institutions. City banks, because of their broader experience, closer access to prompt information and employment of specialists, have extensive facilities which would be invaluable to their correspondents, so that thought may well be given to the possibilities of increased activities in this direction as an offset to the stoppage of interest payments.

Many other methods for closer cooperation suggest themselves. Perhaps collections can be speeded up, credit information be made more easily and quickly available, advice be extended in regard to commercial paper, machinery for the safeguarding of securities and the collection of coupons improved, or a system of closer personal contacts built up which will result in a clearer understanding of mutual problems and a more intimate exchange of useful experience.

This whole problem is one which deserves the immediate and earnest consideration of every one engaged in banking. If the best thinking of the whole fraternity is devoted to the subject, much can be done to offset any temporary ill effects, and the JOURNAL therefore makes it the basis for its

**Answers to the JOURNAL'S July question are on Page 38 of this issue**

August question, which appears above.

Tell us in 150 words what steps, in your opinion, can be taken to strengthen the ties between city banks and their correspondents. Be as practical and specific as possible and depend upon it that your contribution will be accorded every consideration by the editorial committee which passes on all replies.

How one metropolitan bank regards the prospects for change is shown by the following excerpts from a circular recently mailed by the Philadelphia National Bank to all its correspondents.

"Twenty years ago the Federal Reserve Act brought about what were then considered to be the most important and profound changes which had up to that time been introduced into the business of banking," the circular says. "Bankers were very naturally as much concerned with the immediate effects of the new law upon their everyday practice as they were with respect to the economic results in which the entire business, social, and political worlds were more particularly interested. As we face new problems presented by the Banking Act of 1933 and attempt to forecast what may now happen, we can at least agree that very few of the more radical changes that were freely predicted during 1914 and 1915 as inevitable under Federal Reserve Bank development ever came to pass.

"The reasons are quite clear. Statute law and the institutions which laws sanction or create are concerned with human relationships and services. We may deal in such abstract terms as industry, commerce, transportation and banking; but concretely these are merely words and symbols of the means organized society has developed, that individuals may live comfortably and with some fair promise of peace and prosperity. Laws may be changed overnight, but habits and tendencies will not be so easily overridden.

"Basing our conclusions upon these considerations, and supported by the fact that the organization of the Federal Reserve banks disturbed only to a slight degree the relationship existing between out-of-town banks and their city correspondents, we are convinced that the interest provisions of the Banking Act of 1933 will have but little effect in the way of shifting balances and accounts between banks. We believe that the varied and extensive facilities which our correspondents enjoy and which are fully available for every banking need, will continue to be useful."

## Rules for the Monthly Forum

1. Answers must be 150 words or less.
2. They must be received by the JOURNAL not later than the 10th of the month in which the question appears.
3. Anyone who wishes to obtain in advance the question for the following month can do so by writing to the JOURNAL on or before the 15th of any month.
4. Answers may be submitted by anyone not a member of the JOURNAL staff, regardless of whether he is a subscriber.
5. Awards will be made to the seven most concise, accurate and interesting answers. The first of the seven, judged on that basis, will be awarded $50, the second, $25 and the remaining five, $5 each. Awards will be announced in the issue of the JOURNAL following that in which the question was announced.
6. Each month's question will be particularly appropriate at the time of publication, and articles covering various aspects of the question will be found in the JOURNAL'S pages for that month.
7. The JOURNAL may terminate the forum at any time, making awards, however, for answers to the last questions published.
8. Manuscripts will not be returned except on request by the author.